REALISTIC INVESTMENT APPROACH TO 1958

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CONTENTS

Christmas Editorial
By the Publisher 379

Trend of Events 381

As I See It!
By Charles Benedict 383

Market Over Next Fortnight
By A. T. Miller 384

The Rise and Fall in World Prices
By George Gebhardt 387

The Bounty of the Sea
By A. W. Zanzi 390

What Needs to be Done to Prevent a Deepening Recession
By Paul J. Maynard 394

Inside Washington
By "Veritas" 396

As We Go To Press 397

As the Sands of the Sahara Desert Yield Black Gold
By John Forrester 399

Will the Helicopter Be the "Model T" of the Air?
By Marvin Raphael 402

Companies Adjusting Profit Sights to 1958 Realities
By David Bell 405

Camera Companies Benefiting from Double Exposure
By Joseph L. Stanley 408

Newcomers to the N. Y. Stock Exchange
By Our Staff 411

For Profit and Income 414

Business Analyst and Trend Forecaster 416

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To Our Friends and Subscribers

THE Christmas spirit is a wonderful thing, for then our hearts speak for us in a way that heals our souls and brings joy and happiness to those around us.

And somehow — this mellowness of our spirit makes us think more clearly — and the strength of the almighty we feel stirring within inspires us with the capacity to meet the challenge of tomorrow with strength and courage. We know, as the night follows the day — that with the confidence and the determination born of faith — and a dash of common sense — we can overcome the obstacles in our way that plague us as we move along uncharted paths into a new world, the dimensions of which stir the imagination.

But life is not involved only with the solving of the mysteries of the heavens and the depths of the seas. Its main purpose is to perfect the art of living our lives fully and completely as human beings. And the Christmas spirit revolves around man's progress in this direction.

Let us, therefore, throw off the shackles that bind us — to bring closer and closer the realization of the goals that give our lives meaning — that will make life worth living.

To you, our friends and subscribers, whom we are happy to serve in the year ahead, with all our hearts we wish you well in your undertakings and a full measure of happiness and contentment.

C. G. Wyckoff

Publisher

THE MAGAZINE OF WALL STREET

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THE MAGAZINE OF WALL STREET
C. G. Wyckoff, *Editor-Publisher*

The Trend of Events

PRESIDENT EISENHOWER AND THE NATO CONFERENCE . . . In taking such great risks to assume leadership of the Paris Conference, President Eisenhower unquestionably felt he had an important contribution to make. And undoubtedly, at top form and at the height of his prestige, he would have been able to accomplish a great deal. His stimulating and scintillating personality would have been an inspiration at any crucial period, and we would have been among the first to urge the President to travel abroad.

But, under existing conditions, the circumstances of his departure were particularly inauspicious. The state of his health was a matter of conjecture – confusion was rampant in Washington, and the same vacillation that had hitherto been displayed in dealing with foreign affairs was apparent in planning for the NATO Conference. Then, politically the situation was badly handled, for the sidetracking of Mr. Stevenson, who had been urgently invited to attend in the first place, knocked out a very important prop, so that the President did not have the advantage of presenting a united front to assure the heads of the NATO countries that any agreements reached at the Conference would not be bogged down in a poltical quagmire in the United States Senate, as happened in the case of Woodrow Wilson.

Moreover, Russia was capitalizing on our weakness by using the situation to attack on all fronts, bombarding Western Europe with a barrage of threats by the artful exploitation of Sputnik Dimplomacy, and by stimulating insurrections and revolt as far out as Indonesia.

On top of these outside pressures that were threatening the alliance, the internal pressures in the individual countries were taking their toll. France came to the conference embittered over our stand in the Algerian crisis and our shipment of arms to Morocco – Germany wants "out" of NATO – and Britain is thinking more in terms of closer commonwealth solidarity. So, to succeed, the President had to be able to tear down a towering mountain of obstacles that would tax the powers and charms of a Solomon, as well as the strength of an Atlas.

In the light of these facts, it seems clear that Mr. Eisenhower is tackling something beyond his strength and endurance, and obliged to lean too heavily on Mr. Dulles, who only a few months ago was recovering from major cancer surgery himself, and whose handling of foreign affairs has brought our prestige down to the lowest point that we can remember since the U.S. became a major factor internationally.

The outcome will be the raising of the price for adherence to NATO, which will eventually prove to be mere lip-service, and the cost we will have to pay in sweat, blood and tears, as Mr. Churchill would say, may be far out of proportion to the benefits we can hope to reap.

We call the attention of the reader to our Trend Forecaster, which appears as a regular feature of the Business Analyst. This department presents a valuable market analysis of importance to investors and business men. To keep abreast of the forces that may shape tomorrow's markets, don't miss this regular feature.

THE ROAD TO. PROGRESS . . . This great age of scientific development which is now

Business, Financial *and* Investment Counsellors::1907–*"Our 50th Year of Service"*–1957

taking hold in this country holds out the hope of releasing men with imagination from desk jobs and putting them into the laboratory where they belong.

It is worthwhile recalling that most of the great scientific advances in human history stem from the curiosity of men of genius. Galileo's laws of motion had no practical value when formulated, but opened the doors to the understanding of the universe. Newton's gravitational theories brought to mankind a true understanding of the real nature of energy and matter. And Benjamin Franklin, who was the first to demonstrate that lightning was electricity, opened the doors wide to other men of genius such as Maxwell, Ohm, Volta, and, decades later, resulted in the invention of the electric light by Thomas A. Edison. And, in fact, Einstein's theory of relativity had only academic interest, but he inspired other research which unlocked the atom.

The great developments of the last two centuries in products that are important in our every-day life result from the practical application of pure research. Thus, Nylon was the accidental discovery of Wallace H. Carothers, of the DuPont Company, who was seeking only to understand the molecular structure of certain chemical compounds. The discovery of Nylon, in turn, spawned the giant plastics industry, which is moving into an important place in American industry.

No longer is science for the sake of science alone being scorned. In fact, there is now growing recognition of its place in the economic life and well being of industry. As a result, there are an increasing number of corporations ready to educate and train talented individuals and to make available to them the tools of basic research without being impatient for immediate and concrete results.

If, in addition, our schools develop the type of free thinking and curious minds eager and dedicated to uncovering the secrets of nature and its adaptability to the service of mankind, an entirely new world will be opened up in which the United States will have a respected leadership. For, given the discoveries American industry will devise the production techniques and adapt the knowledge gained to practical realities.

RECIPROCAL TRADE DILEMMA . . . The growing opposition to the Reciprocal Trade Agreements stems from the changes that have taken place since they were first proposed by Secretary Hull.

At that time the Act was designed in a large measure to market our farm surpluses abroad in exchange for raw materials that were needed at home, the president having discretion to make changes and adjustments he believed desirable during the statutory life of the agreement.

Since then, there has been widespread industrialization abroad, altering the nature of many foreign economies. As a result, instead of limiting imports primarily to raw materials, the Reciprocal Trade agreements have served as an open door, through which manufactured products of other countries have flowed into the United States, to the detriment of many American industries. In some cases the effect has actually been one of endangering the very existence of domestic companies.

As a result, there have been mounting protests to both the Congress and the Tariff Commission for relief. The bicycle industry, for example, declared it would be forced to close down unless imports are curtailed – watch-making, an art that proved its defense value during World War II, stands in danger of dying under the impact of cheap imports – the textile industry, already suffering from broad domestic competition and the impact of synthetic fibres, fears further dislocation as a result of the influx of low-labor cost finished goods flooding the country.

Since trade is a two-way street, Congress is giving a great deal of study to this matter, which will require the most realistic type of consideration in the light of the loud complaints at home and the political cries from the countries abroad.

Although the White House has asked for a 5-year renewal, it now appears Congress will make the Reciprocal Trade Agreement a 3-year program to run parallel with the creation of the European Common Market, which comes into being on January 1, 1958 – for Congress recognizes that it would be dangerous for the United States to be without an international trade treaty program while European countries are already offering one of their own.

However, it is probable that Congress will remove some of the discretion from the President, and, instead add a "peril point" instrument intended to set up a statutory block to new imports at a level which would create protection for American industry and maintain our economy and our employment at a sound level.

It is well to recognize that a serious unemployment problem in this country would redound to the disadvantage of our merchants and our economy – would result in a drain on our welfare funds – and would also reduce much needed tax revenues.

In our new book, "THE NEXT TWO YEARS", we cover the situation fully, and present facts regarding the position of the individual countries around the world, showing where markets exist for American goods – where import restrictions will shut us out – where various common market agreements are likely to disrupt the free flow of American trade – and concludes by covering the most advantageous trading areas for American goods.

BRAIN POWER . . . Brain power is a resource of first importance – more than money or missiles.

Throughout man's history, brains have won all the battles, just as it does in our every-day life. Napoleon's superior resourcefulness outgunned the heavy armaments of Europe, and when he lost it was not to fire power but to declining mental capacity due to illness. Alexander, the pupil of Aristotle, conquered the world of his day, and only death stopped him. Disraeli became prime minister of England over the greatest handicaps of race and religion – and his genius made Victoria Empress of India. He accomplished with brain power what arms could not. The Swiss Republic, where people of four races have lived in complete harmony while the rest of the world were at each other's throats, was won by men with sound hearts and fine minds.

How foolish therefore is this age, which values money above free thinking minds. The world has justly attributed god-like qualities to its mental giants – and it is reasonable that they should, because genius is in close touch with the infinite.

As I See It!

By JAMES J. BUTLER

THE VANISHING MIRAGE OF LABOR UNIFICATION

ORGANIZED Labor's dream of an empire of vast economic and political strength is evaporating. The clear road ahead which was visualized when chiefs of American Federation of Labor and of the Congress of Industrial Organiaztions agreed among themselves to merge, has proved to be rocky and barricaded.

The "united" organizations have concluded their annual convention with little to cheer about and much to moan about. The evidences are many that the super-government and the overriding economic control which the amalgamation forecast, has not materialized. If anything, the trend is in the opposite direction.

The AFL and CIO set a deadline of December 5, 1957, for completion of the merger. It was not achieved; it was allowed to pass over by almost one-third of the state organizations — counting among them the largest concentrations of industrial labor. New York, New Jersey and Pennsylvania, for examples: also California on the West Coast, and Florida in the south — two prime centers of aviation industry activity.

Even within AFL-CIO, the Meany - Reuther-Carey combine needs tinted glasses to find any cheer. At the Atlantic City convention, 20 per cent of the delegates voted against Meany's clean-up campaign, took their stand with the Becks and Hoffas. The righteous wing of big unionism won a victory, but a costly one: the teamsters union accounts for about 10 per cent of labor's card holders. At 50 cents-a-head assessment for national headquarters, the teamster ouster hits the AFL-CIO treasury to the extent of about $800,000 a year. And there are other unions which are on the expulsion list: smaller unions, but in the aggregate important. Loss of members and money at a time when massive strength seemed to be building, has had a decidedly depressing effect on the cause of "unity".

Add to this the fact that labor is likely to be called to more strict accountability in the next Congress, and the result is organizational migraine.

A crack in the United Labor front for ever-increasing wages was indicated when Richard J. Gray's proposition that the 19-union Building Trades Council (AFL-CIO) which he heads, declared a moratorium on wage increase demands for 1958. This is one of the most strikingly significant developments within the labor movement in at least half a century.

"Is It My Imagination or Is the Climate Getting Colder?"

New York Herald Tribune Inc.

Although George Meany, president of the unified labor organization, promptly jumped on the proposal with both feet, that was to be expected. The Meany rejection fell far short of countering the Gray affirmation. It left open a great area of speculation and conflict to come.

In evaluating and interpreting Mr. Gray's idea for a moratorium, the background against which it was broached should be examined. It was not casual comment, such as might have been dropped into generalized discussion on the union hall level: It was clearly a well-considered position, firm in purpose, related thoughtfully to the positive goal of beating down inflation. And it was released on the eve of the AFL-CIO national convention. It was formalized; no escape hatch was slipped into the statement — no leeway left for possible retreat on the excuse of misinterpretation or misquotation. With the precision of a rocket firing count-down, Mr. Gray timed his "unorthodox" recommendation not only to coincide with labor's oncoming convention, but also to seize the center of its pre-session stage.

As a labor leader of high standing, who is looked to for guidance in labor management by millions of workers, Mr. Gray must have reason to believe he speaks for many leaders (*Please turn to page* 428)

Realistic Investment Approach to 1958

A trading-range pattern for the industrial list into early January seems probable, possibly with some further rally. Under the impact of continuing business recession, last October's low may well be tested, if not broken, within the 1958 first quarter. You should continue to emphasize caution, and reserve buying power, in portfolio management.

By A. T. MILLER

Irregular and mixed over the last fortnight, stock market performance on the whole provided no great pre-Christmas cheer for the bulls, but neither did it give the bears much to gloat about. The industrial average remains in a trading-range recovery phase which, despite repeated interruptions, may possibly be extended in moderate degree within the late-December-early-January period in technical response to the termination of tax-selling pressure. Its rally high to date was recorded November 29 and represented a retracement of about 30% of the July-October decline. In view of the scope of the rebound and continuing tax selling in many depressed issues, it is not surprising that some ground has been surrendered in December up to this writing. At last week's poorest closing level a little more than a third of the October-November recovery had been given up, but this sell-off was checked, to the extent of levelling-out tendencies in subsequent trading; and the week ended on a mild upward tilt.

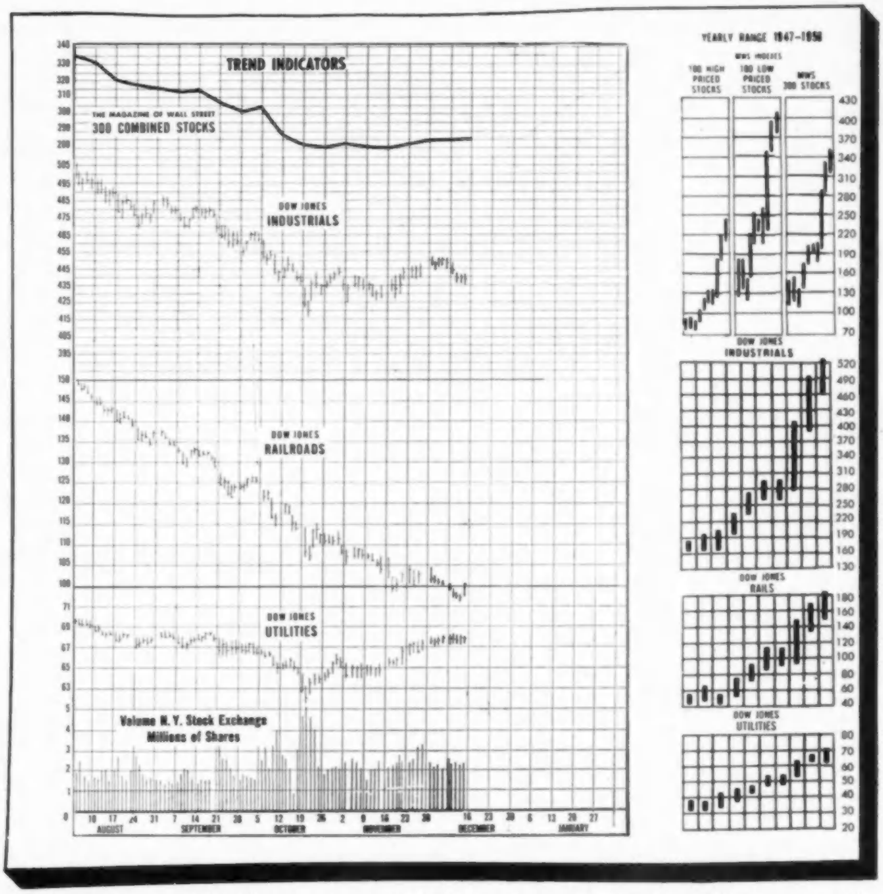
Reflecting the adverse trends of carloadings and earnings, plus persistent tax selling, the downtrend in rails since July—amounting to another phase of a bear market dating from a May, 1956, top—has yet to be broken by more than minor and brief rallies. This average's October low of 107.21 became technically meaningless in short order. It sagged to a new low of 98.77 in mid-November; and further to 95.98 by December 10, extending the total decline to more than 47% and establishing another temporarily over-sold position. Toward the end of last week rails had the sharpest rally in some time, probably due largely to short-covering and facilitated by reports that the railroads hope for additional rate relief in no great time. Whether or not they get it, the basic outlook for rail stocks will remain dim until the end of business recession comes into sight. However, they could have a more sizable year-end rally after completion of remaining tax selling.

Bright Section of Market

In the case of utilities, and of a number of industrial income stocks in consumer-goods fields, it appears increasingly beyond debate that the full adjustment was completed at the October low; and that they are in an upward trend—of unpredictable scope and duration, but no doubt on the moderate side as is typical of income stocks—rather than a mere intermediate recovery. The primary considerations here are (1) satisfactory-to-favorable prospects for earnings and dividends, regardless of industrial recession; and (2) the bull market in bonds, bringing shrinkage in bond yields and proportionately en-

hancing the appeal of dividend return on well-situated investment-grade income stocks. Although the rise in utilities flattened out over much of the last three weeks, the average edged higher late last week, making up at the best level about 65% of the entire July-October retreat.

On the whole, with relatively few exceptions, stocks in the capital-goods and consumer-durable-goods fields have continued to make a relatively poor showing, reflecting adverse industry reports, vulnerability to profit shrinkage and further tax selling pressure. Examples include aluminum, copper, automobiles and auto parts, machinery, metal fabricating, radio-television, rail equipment and steel. These and others, making up a big segment of the market, are, of course, sensitive to business recession and relatively insensitive to money-market factors. They are not likely to make a real turn, much, if any, in advance of signs of the ultimate levelling out in the recession, although nearby relief from tax selling could facilitate some short-term rally.



Looking back over the 1957 performance of the industrial average, the pattern has been as follows: (1) Nearly a 45-point fall to mid-February, extending the decline from the August, 1956, double-top to about 65 points; (2) virtually a full recovery to a triple-top by last July, spurred by exaggerated emphasis on inflation, in defiance of generally static earnings, and culminating in decided over-valuation of many stocks, especially popular "growth" stocks; (3) the July-October plunge of about 101 points, sharpest in many years; (4) the recent partial and essentially technical recovery. At this writing, as we near the year end, the net result since the start of 1957 has been a decline of roughly 12%.

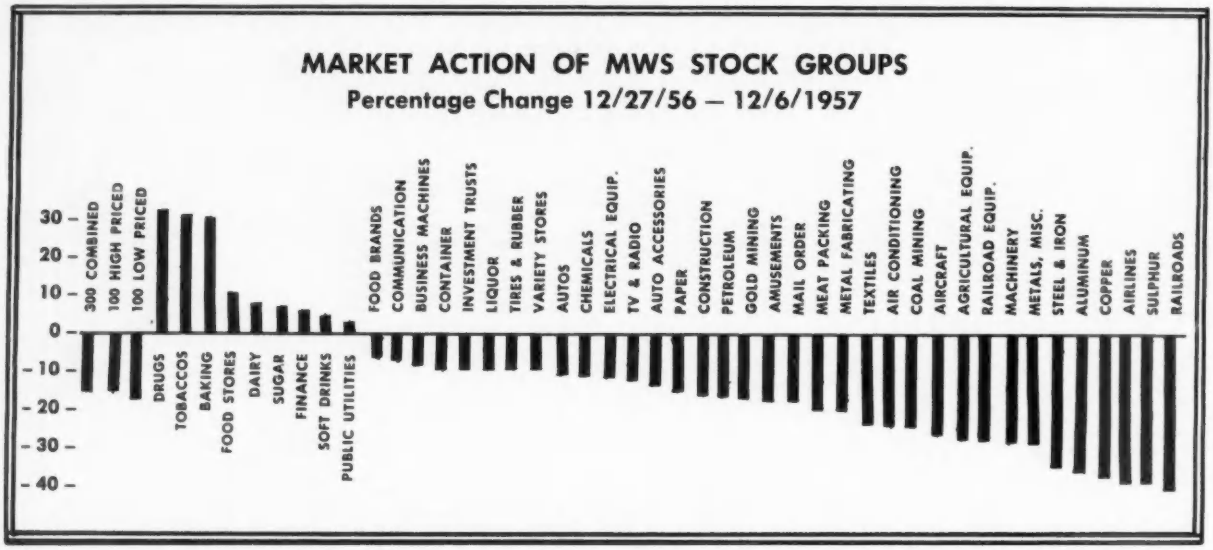
That compares with net declines of close to 16% by our combined weekly index of 300 stocks and the index of 100 high-priced stocks; and of more than 17% in the case of the index of 100 low-priced stocks. While it has remained a selective "market of stocks", only a small minority of the stock groups have gained ground on the year. Among the others, variations in degree of decline have, as usual, been wide. (See special chart of our weekly stock-group indexes on page 386).

Two Outstanding Stock Groups

The two outstanding groups are drugs, with a gain of 31% from the 1956 closing level; and tobaccos, up 30%. For drugs, this is the third consecutive year of outstanding performance. Few of the stocks are even moderately-priced on present earnings, and none is cheap. They probably will hold up better than average on any extension of the market's downward trend; but if the market makes its turn by spring or early summer, as is possible, drugs are unlikely to be among the top groups in over-all 1958 performance. The cigarette group has risen from a depressed level, aided by higher earnings and the wearing off of the earlier investment distrust of this business because of the protracted health-scare publicity. It is now estimated that 1957 unit consumption of cigarettes will show around a 6% gain, the largest in many years. These issues remain reasonably priced on earnings; and, on average, may go moderately higher. However, the 30% rise is abnormal for what is primarily an income-stock group, and is unlikely to be matched in 1958.

Gains in other groups are smaller, and also confined largely to lines which are close to the consumer: baking 10%; food stores 10%; dairy products 6%; sugar 6%; finance companies 5%; soft drinks 4%; and public utilities 1%. These groups and income stocks generally can be expected to fare better than the market only so long as we have a downtrend market. In due time, whether it is three, six or nine months, market leadership will revert to cyclical-type stocks and to growth stocks.

The biggest 1957 declines, ranging from 28% to 40%, have been largely in the market areas where one would expect them to be found under the condi-



tions now existing. They include railroads, copper, steel, agricultural equipment, machinery and railroad equipment, all typical leaders in market downtrends; and air lines, aluminum and sulphur, which are special situations in considerable degree.

The smaller-than-average declines are also pretty much where you would expect them to center, with none in the heavy-industry area. The groups down 4% to 10% are: department stores, food brands, communication, business machines, containers, tires and variety stores. While sluggish, the last-named group has worked slowly but surely to the poorest level seen in many years.

Stocks in some groups tend to move together in considerable degree. This is so, for example, of railroads, steels and utilities. In other instances, the group index may "average out" extremely wide differences in individual issues. Thus, the construction group shows a 16% decline on the year. However, the average cement stock is down over 25%. Issues of companies making mostly heating and plumbing equipment are down over 30%. Stocks classed mainly as wallboard or roofing issues have fared better than the industrial list. At one extreme in the construction group, U. S. Gypsum is up about 16% on the year, Briggs Mfg. (plumbing ware) is down 59%.

In the favored cigarette group all issues are up, but in none is the gain close to the 30% average for the group. The gains range all the way from a little over 5% in Liggett & Myers to more than 100% in Lorillard. The nearest one to the group average is Reynolds, with a net rise of 19%. Among the leading drug stocks, on the other hand, divergences have been surprisingly moderate. For instance, gains ranging from about 30% to 40% are shown by Bristol-Myers, Merck, Parke Davis, Schering and Warner-Lambert; gains (*Please turn to page* 428)

Action of Individual Stocks In Important Groups

Percentage Change December 27, 1956—December 6, 1957

AUTOS & TRUCKS		
American Motors	+56	
Chrysler		−6
Ford		−27
General Motors		−19
Mack Truck		−20
Studebaker Packard		−48
White Motor		−10
CHEMICALS		
Air Reduction	+3	
Allied Chemical		−20
Amer. Cyanamid	+10	
Comm'l Solvents		−37
Du Pont		−6
Union Carbide		−17
ELECTRICAL EQUIP.		
Allis Chalmers		−28
Cutler Hammer		−31
Emerson Elec.	+5	
General Elec.	+4	
Square D		−22
Westinghouse Elec.	+8	
PAPER		
Crown Zellerbach		−9
International Paper		−13
St. Regis		−40
Union Bag	+1	
PETROLEUM		
Atlantic Ref.		−7
Continental Oil		−27
Cities Service		−23
Gulf	+6	
Ohio		−23
Phillips		−22
Plymouth		−31
Pure Oil		−26
Royal Dutch		−2
Richfield		−12
Shell		−21
Sinclair		−20
Socony		−7
Standard Calif.	+2	
Standard Indiana		−37
Standard N. J.		−14
Standard Ohio		−21
Sunray		−20
Texas Co.	+12	
Tidewater		−37
STEEL & IRON		
Allegh. Ludlum		−45
Armco		−32
Bethlehem		−21
Colo. Fuel & Iron		−36
Detroit Steel		−57
Inland		−26
Interlake		−41
Jones & Laughlin		−30
National		−30
Republic		−30
U. S. Steel		−27
Youngstown		−39
TOBACCO		
American	+6	
Liggett & Myers	+6	
Lorillard	+116	
Phillip Morris	+5	
Reynolds B	+19	

the Rise and Fall in WORLD PRICES

— Deals with the whole series of non-repetitive factors which have now shot their respective bolts — Disintegration of the price structure in a world haunted by further inflation

By GEORGE GEBHARDT

■ It is not too surprising, perhaps, that inflationary ideas, at a low ebb early this Fall, should get a fresh lease on life just when the tide seems to have definitely turned towards deflation throughout the world.

The historical records show clearly that inflationary sentiment invariably has flourished and attained its peak some months after inflation has run its course and deflation is under way. Conversely, deflationary ideas invariably have lingered for a considerable time after deflation has accomplished its worst and recovery actually has begun.

The failure to understand or evaluate the forces that push prices up and that force them down, apparently is the major reason why the general public, including some of the most astute business men and investors, so frequently has missed the boat at turning points in the economy.

Prices Far Above "Normal"

The present commodity price level in the United States, as measured by the Bureau of Labor Statistics wholesale price index, is 125 percent higher than the five-year (1935-39) pre-World War II average and 82 percent higher than the 1926 base that was considered as "normal" for many years. Actually, as the circumstances of the Great Depression of the 1930s proved, price relationships approximating 1926 values were too inflated to be sustained.

The highly inflated nature of the current price level has been concealed, of course, by the shifting of the base from 1926 to the already inflated 1947-49 average. To no inconsiderable extent, this purely statistical shift has exerted a soporific effect on the public.

There has been an increasing tendency to regard the 1947-49 average of prices as normal, and to think of the price level at the present time as "only" 18 percent above normal at the most.

If there is any such thing as a normal base for the price level in the United States, it would be closely approximated by the 1935-39 average. For 100 years prior to World War II, the wholesale price index—despite periods of wartime inflation and postwar deflation, and of business booms and subsequent depressions — averaged practically the same as in 1935-39.

There is no conclusive evidence in the historical data, contrary to the view held by the general public, of any long term uptrend in the general price level. The price index in 1940 was almost the same as in 1840. Some authorities believe, indeed, that the trend of the price level should be downward as a

result of steady improvement in the techniques of production.

Non-repetitive Stimuli

The sharp rise in the general price level during the past 20 years or so has been the result of an accumulation of what properly must be regarded as non-repetitive stimuli. Each of these has put more air in the balloon. An inflated price level, just the same as an inflated toy balloon, needs fresh stimuli just to prevent it from collapsing. In the case of the toy balloon, it is a matter of porousness.

In the case of prices, it is a matter of both producer and consumer response that eventually proves the undoing of an inflated price level. There is a definite tendency, as a result of the workings of our economic system, for prices to revert to normal.

New Deal Dollar Devaluation

One of the most important, although almost forgotten, of the non-repetitive price stimuli was the devaluation of the dollar in 1933-1934. The value of gold was officially raised from $20.67 per ounce to $35.

This move, which reduced the dollar to 59 percent of its former value, was undertaken in the belief that the deflated price level was so low that it precluded the possibility of economic recovery. It is not the province of this article to discuss the merits or demerits of this drastic move but merely to tell what happened.

Prices of imported and exported primary commodities or materials immediately reflected the full effect or practically the full effect of dollar devaluation, attesting to the fact that prices in the United States in terms of gold follow closely the trend of world prices in gold.

While the general price level also turned upward, the extent of the rise during the next few years was much less than the extent of dollar devaluation. Consequently, the belief arose that the devaluation of the dollar had been relatively ineffective in raising the price level.

The Lag in Performance

What actually happened, of course, was that devaluation was slow in exerting its full effect, owing in part to continued large unemployment. In other words, deflationary factors were opposing inflationary forces.

Not until World War II was full employment attained, and prices were held down during the war by governmental controls. When controls were terminated in 1946, the wholesale price level rose almost immediately to the long term (1840-1939) average in terms of devalued dollars. Since then, of course, prices have risen considerably more as a result of numerous influences, also mostly non-repetitive.

The Bureau of Labor Statistics' index of wholesale prices for the long-term period of 1840-1939 averaged 51, using the 1947-1949 base as 100. Adjusting for the devaluation of the dollar in 1933-1934 would raise the long-term figure to 85. This compares with the present level of 118.

These comparisons, wide apart though they are, furnish some measure of the over-inflation of the commodity price structure in terms of devalued dollars, relative to the long-term average, which may be considered as normal. During periods of deflation and business recession, particularly if prolonged, prices tend to decline below normal.

It is quite possible, of course, that the dollar may be devalued further in terms of gold in the event of some future very serious business depression and commodity price deflation, but there is no likelihood of such action unless dictated by circumstances.

Pent-up Demands and Reconstruction

The end of the war, probably the most devastating in history, found the world cupboard fairly well stripped of commodities and supplies of all kinds.

Simultaneously, there literally erupted a flood of worldwide demands that far exceeded available supplies.

Here in the United States, civilian demands for goods and housing that had been pent up during the war and even during the long depression of the 1930s started the ball rolling. Millions of veterans returned to civilian life, married, and started to raise families.

War-torn Europe—short of foodstuffs, of other civilian necessities, and of materials for reconstruction—turned to the United States and to other countries where supplies were available.

Industries, many with orders on their books equal to two year's or more production, undertook expansion programs that have only just begun to taper off. These programs served to heighten still further the demands for materials and manpower.

Shortages of all kinds developed throughout the world, with resultant natural rises in prices. Purely and simply, this was a case of supply and demand at work.

The Cold War and Strategic Stockpiling

As world productive capacity was struggling to meet the above noted rash of demands, plus the filling of industrial and distributive pipelines, the "cold war" broke.

The rearmament programs undertaken by the United States and by several other countries imposed a new set of high level demands for materials and manpower directly on top of already high level demands.

But this was not all. In the belief that any future war would be fought along the lines of World War II, a gigantic strategic materials stockpiling program was conceived and undertaken by the United States and a number of other countries. In some cases, the stockpile "goals" were equivalent to several year's consumption.

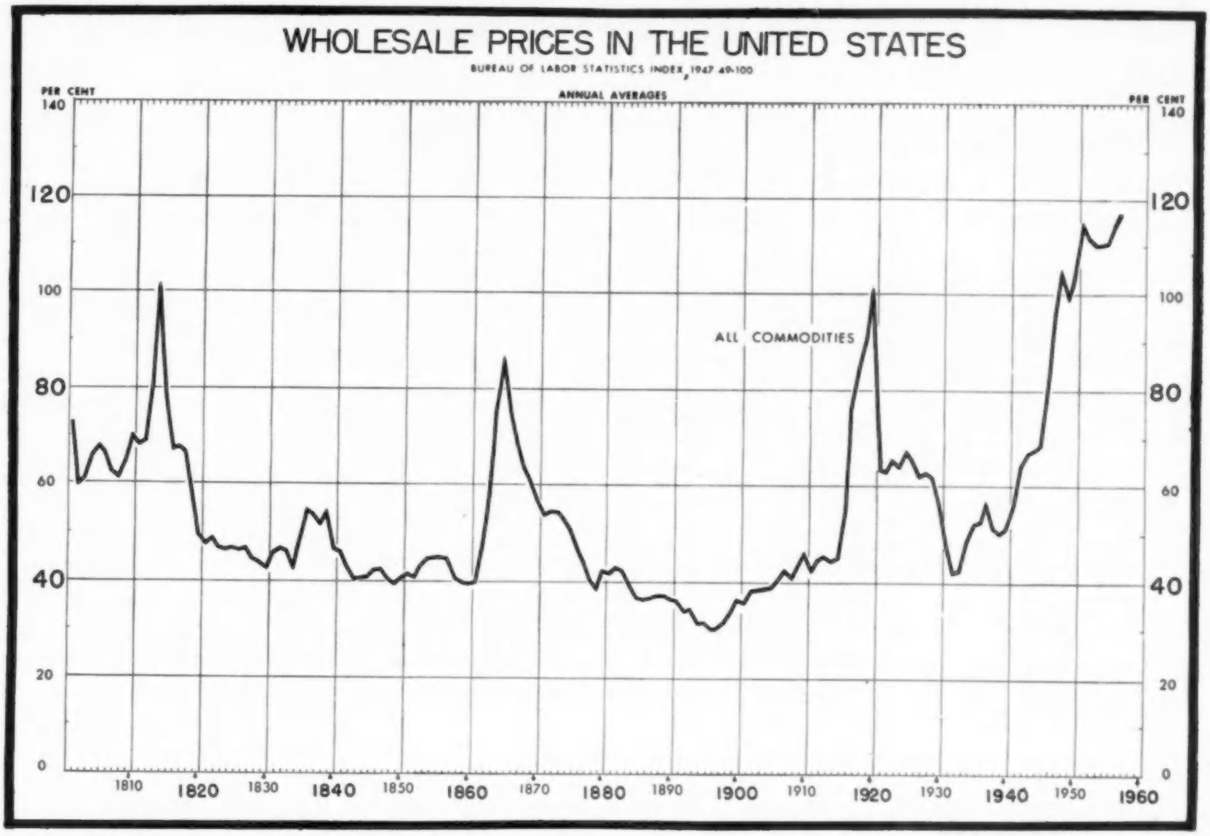
Prices inevitably rose still further under this additional set of demands, as rising production continued to fall short of meeting requirements.

Most stockpile goals now have been attained, and consideration is being given to liquidating some supplies.

The Korean War

The outbreak of war in Korea in June, 1950, generally was considered as the skirmishing for World War III.

Rearmament and stockpiling programs were



stepped up rapidly, even while the war in Korea took heavy toll of supplies.

The civilian public, anticipating lengthy shortages of many types of consumer goods such as had existed during World War II, went on a mad spending spree. This was not confined to the United States alone.

Eventually, Washington issued a "price-freezing" order but not until after the wholesale price level had risen, early in 1951, to 17 percent higher than immediately prior to the outbreak of war in Korea.

As it became apparent that the war would be isolated, the price index backed off from its early 1951 peak and settled down for a number of years at a level about 10 percent higher than had prevailed in June, 1950. The elimination of such price controls as had been imposed resulted in no apparent price stimulus.

The Credit Bubble

The early postwar consumer impetus to prices, as has been noted, stemmed to a large extent from the expenditure of forced wartime savings to meet pent-up demands.

This impetus began to run out of steam in 1947 as prices rose and as consumers exhausted their savings. Then began what is likely to be talked about, when the history of this period is written, as the dizziest credit boom in all time.

Total outstanding consumer credit soared from $11.6 billion at the end of 1947 to approximately $43 billion at the present time. Although the total still is rising, the rate of increase has slowed appreciably in recent months. In the earlier postwar years, the Federal Reserve Board retained its wartime powers of credit control, but these later were eliminated.

Along with the sharp expansion in consumer credit, there occurred a sharp rise in mortgage credit to provide the stimulus for the postwar housing boom.

The sharp rise in these two types of credit resulted in increased demands for materials and manpower, with prices stimulated thereby. As prices of consumer goods and homes rose to the point where consumers could not meet monthly time payments in accordance with the customary time periods, the length of time permitted for repayment was increased. On automobiles and some other types of consumer durables, the repayment time was lengthened to three years and, on homes, to as much as 30 years.

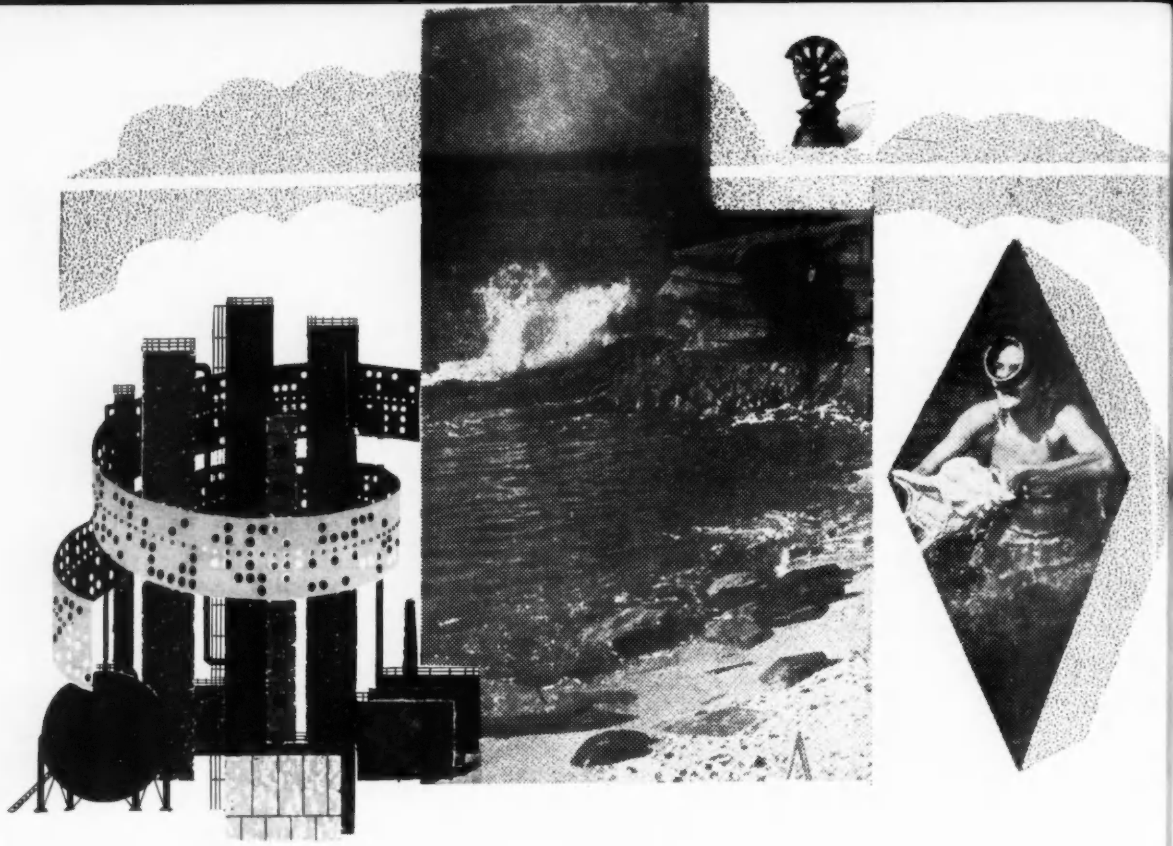
In effect, during the past ten years consumers have mortgaged their future earnings for increasingly longer periods in order to meet rising prices and, incidentally, provide needed stimulus to the postwar business boom.

There is little or no likelihood that time periods for repayment will be increased further.

It should be noted that sharp increases in consumer and mortgage credit have not been confined to the United States.

Marriage and Birth Rates

Since the end of Wor War II, the impetus to the economy derived from (*Please turn to page* 424)



The Bounty of the Sea

— The sea and its source of plenty is at hand on this earth — while outer space is merely an adventure in science

By A. W. ZANZI

■ The sea, as much as the schizoid atom, will in coming years provide new resources in man's eternal struggle for survival. In its clear, cold depths, "where wealth accumulates and time decays" are unsummed heaps of treasure. But this wealth does not lie hidden in secret caves. Nor does it consist of the ageless hoard of ships and cargo that has found its way down to the solitudes and vacancies of the sunless deep. Rather, the substances which will enable man to maintain a favorable ratio between rocketing population and dwindling resources are locked within the dark indigo waters of the oceans themselves. For what has been long possible in principle is rapidly becoming a practical and commercial reality. The day is close at hand, maybe only a few decades away, when man will extract everything he needs for his existence—at a high standard of living—from substances which exist in ordinary rock, air and seawater.

When future generations go down to the sea, they will bring back water for agricultural and industrial use, hydrogen, chlorine, caustic soda, magnesium, salt, bromine, iodine, potassium and minor quantities of other elements. Most of these are already being ripped from the brine and the froth and the bosom of the sea. And untold stores of riches—minerals and petroleum—are preserved below the ocean's floor. From giant platforms with roots deep-driven in the "offshore" areas of the United States and the Middle East, oilmen are piercing the sea floor in their search for the petroleum that is imprisoned in huge domes beneath the ocean's bed. Furthermore, the very oil-laden domes that make the hearts of oilmen singe are an equal source of delight to sulfur miners, such as the Freeport Sulphur Co. For these salt domes or "hats" are frequently enveloped by a stratum of sulfur-bearing limestone which is susceptible to Frasch process mining. But the gift from the sea which most stirs the imagination and warms the hope of a more lavish material abundance throughout the world is the very real prospect that the oceans may be turned up and rent in long furrows and made to yield a profusion of food in the form of protein-rich algae.

Plowing the Sea for Algae

The land areas of the world which provide man with food are limited in their extent. At the same time, the world's population is multiplying, it seems, almost with the speed of nimble thought. Thus, while we have not yet reached the limit of our land resources, the projected growth in world population promises to outrace the available means of sustenance unless neglected sources of food are developed. The most promising and prolific of all potential food-bearing areas is the vast expanse of water which covers most of the earth's surface. Limited until now to the provision of fish for the world's tables, the waters of the sea are now yielding a harvest of nourishing marine algae known to most consumers as plain seaweed. The food potential is so enormous that the large-scale cultivation of these marine plants will launch a new age of agriculture in which the tilled fields and the groomed orchards will give way to the glistening efficiency of a modern processing plant.

Algae farms could single-handedly redress the growing imbalance in the world's population-resources ratio. It is estimated that 100 million acres of algae farms in the sea could yield twice as much food as the world is currently producing from all sources. Thus, if we consider that potential food supply is the basic limitation on population growth, the cultivation of algae in the sea will enable us to accept with good grace the legions of infants who every day add their squalling note to the drumming clamor for more food. Perhaps two-thirds of the world's population knows hunger now. An increase in food production of approximately 25% will be needed merely to provide these people with adequate nutrition. If we consider further that the earth's population will probably grow to 4.8 billion in fifty years and possibly to six billion by the end of the first quarter of the new century, the importance of the sea as a source of food assumes a quality of indispensability.

Algae farms are ideally suited for regions gifted with ample water and sunshine but possessing poor soil. Moreover, the cultivation and harvesting processes are relatively simple and require little human labor. In fact, both operations could be performed mechanically. The algae would be grown in shallow ponds or basins of either fresh or salt water containing necessary mineral nutrients which would be provided by such agricultural chemical firms as American Agricultural Chemical or perhaps even by our industrial chemical giants like Union Carbide, Allied Chemical, Du Pont, American Cyanamid and others. Conceivably, U. S. manufacturers of vitamins, food supplements and health foods for humans such as Pfizer and Eli Lily could undertake the production and marketing of algae as a new and possibly major line. They could at the same time supply the plant nutrients – the fertilizers of seaborne agriculture – to their own algae farms or to independent producers.

Perhaps a hint of the fabulous opportunities for consumer and producer alike that algae cultivation will create can be gleaned from the knowledge that, under favorable conditions, algae will double their numbers in the course of but a few hours. Nor are the potentialities inherent in algae culture limited to processed algae for human consumption. Other forms can be grown for use as raw materials in the organic chemical industry. Manufacturers of chicken and other animal feeds may in the future process large quantities of algae for use by the nation's farmers.

However, human use of algae on a vast scale will require fundamental changes in our eating habits. But the incorporation of algae-based foods in the diets of the world's people will not require as drastic a break with cultural traditions as is often claimed. Unquestionably, the process of proselytizing people and swaying them to a new dietary persuasion will be gradual and time-consuming. It will offer both a challenge and an opportunity to the molders of taste and the arbiters of fashion. The advertiser's task will be as formidable as it will be rewarding. But he will find an invaluable ally in the modern food technologist's ability to transform dried algae into a large variety of foods endowed with a wide range of flavors and textures, often resembling traditional foods in taste and consistency.

The economics of algae culture are at the moment an inhibiting factor. Capital costs are exceptionally high because of the expensive piping, pumping and harvesting facilities required, but it is likely that the cultivation of algae will rise to an important place in world food production in the years ahead.

Mining the Sea for Minerals

The world has now reached a point in its industrial development where the demand for natural resources will soon exceed their availability by such a wide margin that the perpetuation of our society will require the development and exploitation of new sources of energy and materials. This will be no mean task, for it will demand efforts of such immense proportions as to dwarf all previous human wealth-creating activity. Moreover, the new technological developments that will open up untouched stores of wealth will have a profound impact on the process of industrialization in underdeveloped countries as well as upon the economies and social structure of industrial nations.

Perhaps the most far-reaching of the new wealth-creating technologies is the process which permits the separation of minerals from sea water. The potential for mineral wealth which the sea offers mankind is almost breathtaking in its implications. But it also contains a sobering suggestion for the direction of future economic development in the industrializing nations. The prospect that mankind will have to create a radically new resource base in the next fifty years highlights the fact—not adequately emphasized here and abroad—that the "traditional" process of industrialization will probably never be repeated again. For it is a process which requires an adequate resource base and a favorable ratio of people to arable land. In many nations today, this condition does not exist. Tragically, it is missing in the very underdeveloped countries that are now desperately striving to create a machine society. Thus, their attempts to duplicate the pattern of industrial development followed by Western nations in the past are misapplied to the extent that they ignore the new foundations of future industrial societies. For the successful industrialization of countries such as India, for example, will require a drastically different approach from the blueprint of history.

The only foundation on which future civilizations can be reared is one which utilizes the vast resources of energy and materials stored in air rocks and sea water. If the wealth which these contain is properly exploited, it is conceivable that the world will be able to support 100 billion and possibly 200 billion people. But, if these resources are not adequately exploited and populations continue to multiply, then progress will be halted and only agrarian economies will survive.

Dow and Magnesium

Fortunately, thanks to the pioneering work of the Dow Chemical Company, an auspicious start has been made in the United States toward unlocking the wealth of the oceans. A milestone in the recovery of minerals from sea water was passed in 1941 when Dow succeeded in separating magnesium from the waters of the Gulf of Mexico at Freeport, Texas. Although the process of precipitating magnesium hydroxide from sea water bitterns and brines and the technique of making magnesium metal from magnesium chloride were both well known prior to that time, it was not until Dow Chemical perfected an economically feasible process for making metallic magnesium from sea water that the world could count on the oceans for its magnesium requirements. Today, all our primary magnesium comes from magnesium chloride, produced from sea water at two Dow-operated plants on the Gulf Coast with a total capacity of about 148 million pounds per year.

The ready availability of magnesium from sea water will mean that mankind will have adequate quantities of magnesium metal long after high-grade deposits of other metals have disappeared. The only necessary conditions are that there be adequate sources of energy and of hydrochloric acid. But even here the sea will provide at least a partial answer. The ocean's tides can and have been harnessed to generate power. The rise and fall of the tides have been used to produce power at Passamaquoddy Bay in Canada and at Cobscobb Bay in the United States. However, the availability of power from this source is limited by the fact that there are relatively few areas in the world where the range between high and low tide is of sufficient amplitude. As for hydrochloric acid, it too can be derived from the sea through the electrolysis of salt brine. Thus, with the possible exception of energy, the raw materials for the production of magnesium are practically unlimited.

Magical Salt

But the story of magnesium's emergence from the sea reveals only one corner of Neptune's treasure chest. The oceans of the world are a generous assemblage of about 50 million billion tons of dissolved materials, which are being increased steadily by the earth's flowing rivers. The International Geophysical Year expects to prove that the sea contains every element known to man, although 99% of the ocean's salts are known to consist of eight elements: sodium, chlorine, sulfur, magnesium, calcium, potassium, carbon and bromine. While sodium chloride—everyman's table salt—was unquestionably the first chemical compound to be extracted from sea water, magnesium and bromine were the first elements to be recovered directly from the sea . . . without the accustomed methods of evaporation and by the newer techniques of chemical processes.

Bromine is one of the more illustrious examples of an ocean-derived product. Dow Chemical Company's persistent search for an alternative source of bromide is primarily responsible for the development of a commercial process for the extraction of bromine directly from sea water. The methods pioneered by Dr. Dow and conducted through a period of intense foreign competition, enabled the United States to transcend the limited supplies available from salt brines. Since 1932, bromine has been mined in commercial quantities from sea water by the Dow Chemical Company, despite the fact that this valuable chemical occurs in such a minute ratio as 67 parts of bromine to every million parts of water. Again, science had forced the sea to yield great quantities of bromine for use in "Ethyl" antiknock compounds, pharmaceuticals, pesticides, photographic products, waterproofing compounds, cold wave permanent preparations, refrigerants and in the manufacture of rayon.

The list of products which materialize from the sea through the magic of chemistry is a who's who of nature's building blocks. Salt, of course, is one of the most plentiful raw materials stored in the sea. It has been estimated that if all the salt in the oceans could be collected, it would occupy 15 times the volume of Europe above sea level. But not all of this would be sprinkled over food. Only a negligible

proportion of U. S. salt output, for example, ends up as food seasoning. About 96% is used to manufacture chemicals which enter into thousands of products and processes that serve our daily needs. One of the most important of these is the ammonia-soda process from which we derive a variety of alkali products, including the industrially important soda ash and caustic soda. These are used in the manufacture of rayon, soaps, plastics, explosives as well as in processing cotton and in oil refining.

Soda ash is also a source of sodium, whose compounds are used in the food and pharmaceutical industries. These include saccharin and sucryl and the food preservative, sodium benzoate. Sodium proponate is a mold inhibitor in bread and is also used as a medicinal in cattle raising. Sodium peroxide is widely used in bleaching cotton textiles and wood pulp. Moreover, new uses for sodium metal itself are being discovered every day. One of its most promising future applications will be as a reducing agent in the manufacture of molten titanium. Our atomic energy program also will offer new and growing outlets for sodium metal as a coolant or heat transfer agent.

Perhaps the most important of all salt-derived chemicals is chlorine, which is produced by the electrolysis of brine. Its vital role in industry can be seen in the fact that it enters into the manufacture of such diversified products as rubber, textiles, plastics, explosives, pulp and paper, bleaches, disinfectants, adhesives, petroleum refining, insecticides and many other chemicals. Chlorinated methane is used in the production of synthetic rubber, in safety film, antibiotics, silicone resins, solvents and as a versatile chemical intermediate.

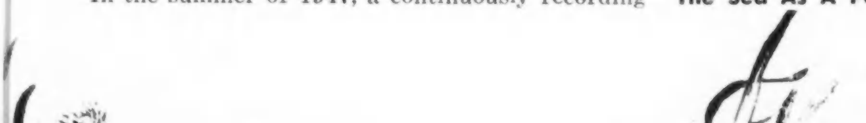
Sulfur and Petroleum from the Ocean Floor

In the summer of 1947, a continuously recording echo sounder aboard the research vessel *Atlantis* discovered and traced the outlines of a vast plain more than 200 miles wide in the deepest part of the western Atlantic. Cores extracted from this sub-oceanic plain revealed the startling fact that, unlike deep-sea beds elsewhere which consist of thick deposits of fine oozes and clays, the bed here was composed of a thick strata of sand and silt very much like the material on the beaches of Miami or Atlantic City. This discovery eventually led to other confirmations of the existence of gigantic submarine flows, called turbidity currents, whose silt-laden streams were responsible for the formation of the mid-Atlantic plain and others like it.

This development is particularly significant to petroleum men, for much of the petroleum in the world is found in ancient sands which once were part of the sea floor. Turbidity currents therefore offer an important indication of the more promising oil-bearing areas. In fact, this concept has been applied successfully in the exploration of oil fields in the United States. Eventually it may be extended to the exploration of the offshore areas of the U. S. where companies such as Humble Oil and Refining are already engaged in a widespread program of exploration, wildcatting and development drilling.

The risk and cost of exploring the Continental Shelf for oil is justified by the expectation that the offshore lands will be our best source of new oil reserves. The geologist's theory that the Gulf of Mexico hides the continuation of the geology of the Gulf Coast, one of the world's most prolific oil-producing areas, has been conclusively proved by geophysical prospecting and by exploratory drilling. Thus, the oilmen's risky venture on the "cold mantling sea" holds the promise of important new oil reserves for America.

The Sea As A Potential Reservoir of Fresh Water



For centuries man has dreamed of desalting sea water so as to put the oceans in the service of agriculture and industry. The growth of many nations has been stunted by the lack of adequate quantities of fresh water. Furthermore, the world's fresh water needs are expected to double by 1980. As a result, there is an insistent and urgent pressure for the development of an economical process which will permit us to draw upon the sea for our water needs.

Until recently, the principal restraint has been the high cost of the desalting processes that have been devised. All of these require energy to affect the conversion and, while advancing technology is cutting energy costs consistently, the expense of separating salt from the sea is still prohibitive. It appears possible to obtain fresh water from the ocean at an energy cost equivalent to about 60 pounds of coal per 1000 gallons of water. This means that all of the fresh water consumed in the

(*Please turn to page* 425)

What needs to be done

TO PREVENT A DEEPENING RECESSION

By Paul J. Maynard

■ Outlook for business: Recession lasting well into 1958.

Outlook for wages: Continued rise throughout 1958.

To many an old-timer those two forecasts would make little sense. It used to be that when business activity declined and profits were reduced it was only natural for a worker not to get a raise. In fact, he'd be lucky if his pay envelope wasn't made a little lighter.

But that was some time ago—before new-fangled items like long-term wage agreements and cost-of-living escalator clauses began to appear in labor contracts. Unless a radical change takes place in labor affairs, the situation adds up to one thing: industry and trade can expect a higher wage bill regardless of what happens to business activity—and profits—in 1958.

Some idea of the extent of these "built-in" wage increases can be gotten by glancing at daily newspapers. A couple of weeks ago it was reported that there are 1,197 contracts covering more than four million workers which call for a median increase of eight cents an hour next year regardless of business conditions—that come July the steel workers will get a raise averaging eight to nine cents an hour, 1,000,000 railroad workers a boost averaging seven cents an hour, hundreds of thousands of construction workers will get raises even larger than the railroad employes, and the electrical workers will get a raise of 3½% over 1957 levels.

Automatic wage increases written into contracts are in addition to the higher pay that will come through cost-of-living escalator clauses. As prices go up wages follow suit for some four million workers. In this connection it is interesting to recall the results of a poll of business and university economists at the University of Michigan's recent Conference on the Economic Outlook. The consensus was that despite a mild recession in 1958, prices would continue to inch up – about 1% over this year's level.

Other Factors

In addition to upward pressure on wages coming from previous contracts and escalator clauses, there will be the force of union monopoly power. If business objects to excessive wage demands the unions can shut down a business or even an entire industry. With competition growing keener, what company can afford to be closed down and lose all the business to its competitors? In the past it's been easier to pay the wage demands and pass on the higher costs to the consumer. Now that consumers are showing resistance to higher prices that route will be more difficult to follow.

The auto industry provides a good example of the

pressures for higher wages that business will face next year despite softening in economic activity. Walter Reuther, president of the United Auto Workers, warned as early as last April that he was going to push next year for shorter hours and increased pay. Woodrow L. Ginsberg, director of research and engineering of the UAW, told the New York Society of Security Analysts November 19 that despite a recession next year the union would still seek more pay for less work.

The fact that excess capacity exists in a given industry does not mean that the union leaders will refrain from pushing for higher wages. As long as general business activity stays at relatively high levels, labor will forge ahead with its wage demands.

Workers in trade and service industries, of course, will want their wages to go up too. Even though they have little if any collective bargaining power, these workers' wages tend to follow the lead set by the industrial unions. If anyone doubts that non-union wages tend to follow (on invisible escalators) the wage achievements of big unions let him try to hire a maid or other household worker these days. If one is available at all she wants as much as the girl next door is getting working at a nearby factory. Or notice what the barber demands for cutting your hair the same way—with practically the same tools—as he did 50 years ago.

A major force behind the postwar decline in the value of the dollar has been the persistent rise in the cost of services—everything from dry cleaning to the beauty parlor. The bulk of these service costs, of course, is labor.

In fact, much of the "service" costs in the food field is due to the consumers' own demands. While the farmer's share of the food dollar is down compared with past years, prices the consumer pays in the supermarket are up. The difference is made up by higher transportation costs and so-called "built-in maid service."

A busy housewife prefers getting carrots with the tops already lopped off, her pork chops already trimmed and ready to pop into the frying pan, and her spinach de-sanded in an attractive cellophane sack. Of course, these things cost money so the price tag goes up. It might not be in order to suggest that if belt-tightening is needed in order for us to beat the Russians, maybe the housewife could go back to wielding her paring knife.

More Wage Inflation

What this all seems to add up to is that a business setback, such as in 1948-49, 1953-54, and what we apparently are experiencing now, does not put an end to persistently rising wages.

It is impossible to say, of course, how sharp a business setback we would have to suffer before wage demands were affected by economic conditions. Maybe a big shakeout (e.g., the 1937-1938 decline when industrial production dropped 20-25% and unemployment reached 10 million) would have that effect.

Labor's rigid stand on higher and higher wages, without considering its productivity or the business situation, runs the risk of precipitating the very thing labor wants to avoid: unemployment. As costs rise, and businessmen cannot pass them on to consumers in the form of higher prices, profit margins will be trimmed. As the profits dwindle, investors will lose interest. Without funds, business expansion will halt, production will be cut back, and unemployment will mount. By feeding inflation with easy money and credit, the day of reckoning—a real business bust—can only be postponed.

Recognition that labor's intransigence on pay increases may well lead to trouble was voiced just a few days ago by Richard Gray, president of the AFL-CIO Building and Construction Trades Department. In a statesmanlike appeal Mr. Gray proposed that three million union construction workers give up their fight for wage increases next year in an attempt to halt inflation. He added:

"Shall we continue to strive for and obtain wage increases to compensate for—and, I might add, contribute to—the increased cost of living and inflation? If we do will it mean tight money, more inflation, less construction and more unemployment for our people? To me it seems to be a question of stabilizing our wage gains and obtaining full employment through increased construction."

Mr. Gray also made an appeal for unions to permit use of labor-saving tools, machinery, and materials which would help cut production and labor costs.

Certainly featherbedding, especially in its more subtle forms, is one of the most notorious of labor union wastes. Examples of it abound—particularly in the construction business. Paint brushes must be a certain width; spray guns are usually forbidden. Bricklayers are rigidly held down to a certain number of bricks per day. In some areas if windows come to a building project already in the sashes, they are kicked out and glass setters re-install them. Five coats of plaster are required by union plasterers when three would be plenty.

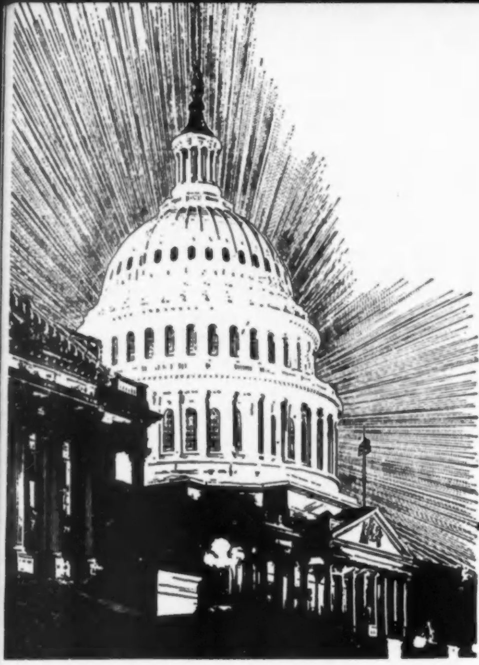
There is no justification for such practices. Their effect is to push building costs through the roof, pricing housing out of the market and bringing on unemployment in the building trades. If we are to hold down costs and reduce pressure on prices we will have to eliminate senseless featherbedding.

Politics and Employment

Excessive wage increases, in a free market system, would face a natural correction. Consumer resistance to ever-rising prices would, at some point, bring about production cutbacks and, eventually, unemployment. Labor would price itself out of the market and would pay the penalty in mounting unemployment.

But that's where politics comes in to prevent this corrective action. As soon as the jobless total begins to mount there are screams for easy credit and for the Federal Reserve to pump up the money supply. More money makes it easier for people to pay the higher prices; in effect, the Federal Reserve underwrites excessive wage demands of the unions.

There is an inflationary bias to a managed money system. The Federal Reserve, although it is somewhat shielded from political pressures from the Congress and the White House, does not operate in a vacuum. When the cries go up about unemployment and softening business it cannot ignore them. Indeed, it can be argued that the Fed would be going counter to the nation's laws if it did not ease up credit restraints when unemployment rises. The Employment Act of 1946 requires that the Federal Reserve do all in its power to maintain employment at high levels. (*Please turn to page* 425)



Inside Washington

By "VERITAS"

RECESSION already has struck the land—it no longer is something to be prevented, but something to be cured. So says the economics office of AFL-CIO. The chosen indicators are valid: industrial production dropped off during October; personal income also dropped in October for the second straight month; employment for this quarter has failed to show the normal upturn; FRB conceded there is need for easier bank credit and looser money. That's the diagnosis—stated bluntly; the cure proposed by AFL-CIO is somewhat vague: "We need programs that will permit consumers to buy the products of American industry and agriculture, and we need programs to insure that the people in the lowest income brackets have a chance to share in the nation's wealth." The AFL-CIO leadership has stated elsewhere however, their firm belief that higher wages are a cure for all ailments. The inflationary effects of such a program are ignored.

WASHINGTON SEES:

The complaint by democrats in Congress that President Eisenhower lacks a sense of urgency in the missile situation has a hollow ring, which becomes even more tinny when the viewpoints of the accusers are examined closely.

What the charge boils down to is this: The President is no less aware than his "loyal opposition"; he is ready to assume responsibility for more spending to develop the newer programs—as much as is found necessary. But he would accomplish this within a budget roughly the same as this fiscal year's spending. The "urgency" that Ike would overlook is the peril that now confronts pork-barrel bills, free spending for special interests, and the dimming outlook for Federal tax cut legislation. These, too, are weapons. They are the weapons a sitting Congressman bears when he goes into a fight for re-election.

Congress—chiefly, but not exclusively the democrats—hopes to equate "sense of urgency" with increased appropriations. They would view missilry as a new project, financed on that basis—adding to, but not substituting for, business-as-usual doling of tax money.

The inconsistency of such a fiscal attitude, while expressing optimism that a tax cut may come next year, is manifest. But it is hardly more lacking in candor than the Administration's professed reliance on savings in non-defense spending to finance the new security program. They aren't in sight.

CONGRESS will receive no new farm program from the White House this year, in the opinion of Rep. Harold D. Cooley, House Agriculture Committee chairman. Cooley reached this conclusion after a series of pre-session conferences with Secretary Ezra Taft Benson. "He didn't indicate to me that he had any new program to offer Congress in January," said the Congressman who failed to add that holding the line with the soil bank idea is likely to be quite enough to keep the Administration engaged. The Department of Agriculture and a majority of Congress, it appears, favor voting $1.5 billion to continue the Development and Assistance (foreign) Act.

"ESCAPE CLAUSE" provision of the Reciprocal Trade Agreements Act is recognized by the White House to be the weak point in the trade treaty program and the rallying standard for those who would junk the Plan, or amend it to insure a minimum of danger to domestic industry from "dumping" of cheap foreign goods. A committee composed of Cabinet members has been appointed by the President to study application of the peril point protection in the past, and recommend a policy for the future. A strong program, coupled with proof of willingness to apply it, might quiet opponents. The Act expires this year and a three-year renewal will be sought by the Administration.

As We Go To Press

The Federal Reserve Board has found lowering the bank discount rate led to many interpretations. FRB thought the action spoke for itself, but inquiries indicate otherwise. Clarifying statements are not likely because, again, the Board doesn't want a new flow of "interpretations." But Members and staff chiefs are likely to deal more with the philosophy of the move in forthcoming speeches. In spite of complaints, some of them from highly influential sources, FRB stuck to the higher interest rate as its prime weapon to fight inflation, for two years. Now the rate has been lowered, for the obvious reason that the recurring disease of inflation appears to be sudsiding. But some businessmen, and many politicians, prefer to read into the step a political gesture, or a concession that business is dropping off, or an invitation to easy money and another inflationary cycle.

Past performance and examination of the Federal Reserve Act's purposes caution rejection of any one, or all, of these explanations as sufficient. FRB has taken a step with characteristic caution. It has burned no bridges. Easier money is at hand now. But developments in thebusiness world, including action taken on union wage demands, plus defense expenditures and a multitude of other considerations, will decide whether the lower rate has a long run, or a short one. FRB has wide latitude in the area of discount rate decisions. That elasticity is valuable. And it has ben used whenever the Board considered it wise to do so. The right of re-use hasn't been abrogated yet.

Some observers find a downturn in business building setting in and expect the pace to be accelerated in early 1958. If so the tight money situation in the field of residential housing will be relieved. While government building will be slowed by the channeling of funds into the missile program, a slackened demand for private capital money will channel loans into the home building market. Lessened demand for capital funds by business and industry next year will divert life insurance company loans to the home mortgage accounts. This is the prediction of the Director of Investment Research, Life Insurance Association of America, Dr. James J. O'Leary, who foresees the inflexibility of FHA-insured mortgage interest rates easing.

The U.S. Maritime Administration and the Atomic Energy Administration worked together on planning for the first American merchant ship powered by a gas-cooled reactor and in the process learned something about American industry. The construction contract was disposed of when it was decided that ,for reasons of facilities, available craftsmen, and the necessity of keeping yards active, the New York Shipbuilding Corporation, Camden, N.J., should do the job -- for $21 million-plus. When the two Federal agencies issued an invitation to bid for the contract to supply nuclear motive power to run the high ship they were surprised to find 18 firms ready and anxious to proceed with building and installing a merchant vessel nuclear power plant!

Internal Revenue Service has marched up the hill and marched down again on the issue of expense account reporting. The announcement that every dime of claimed business expense must be justified came so close to the end of the tax year for individuals that it must have been intended as a warning -- "not this year, but be ready for next!" Several Congressmen protested, but IRS probably intended to yield anyway. If taxpayers who have business expense accounts were to begin in the 11th calendar month to gather justifications for expenditures made in the early months of the year, spectacular ingenuity would have marked the returns flowing into the revenue office in April. But there's no excuse for not having the proofs in returns for 1958 income.

IRS has said the requirement of absolute proof is not a new one. That

assertion can be confirmed on the basis of the written Code. But it never was intended to catch the fellow who may have cheated by including his wife's dinner in the cost of entertaining a business prospect: the targets are the people who have made "expense" allowances a large part, if not major portion, of their income receipts and distribution. The late George M. Cohan thinned the issue of supporting proofs by litigating the tax collector's refusal to accept his statement he had spent $21,000 entertaining persons important to his professional career .He kept no detailed records. The U.S. Board of Tax Appeals (predecessor of the U.S. Tax Court) ruled a reasonable and honest approximation suffices, where it is not normal and customary to mark down the route traversed by each tax dollar.

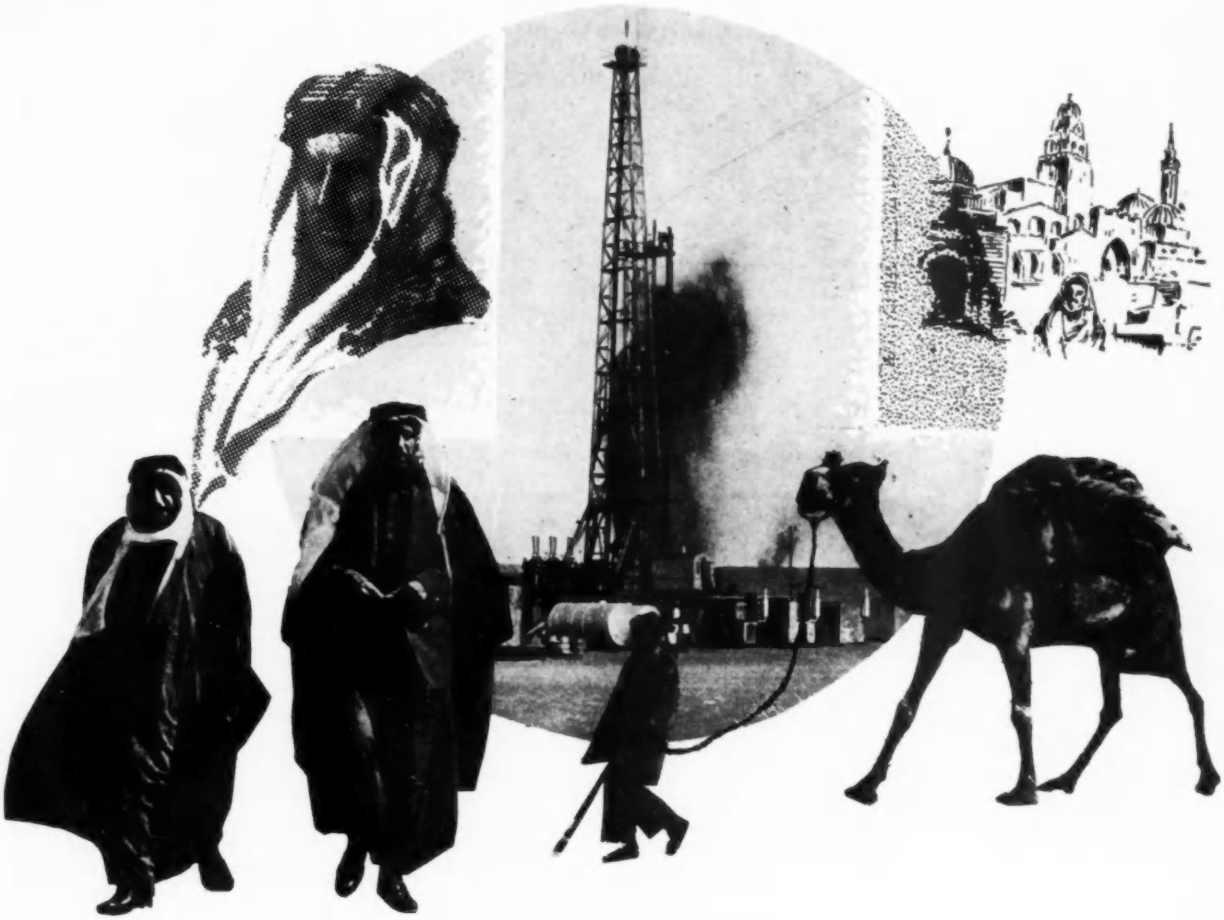
▶ Undoubtedly, the IRS action will close some loopholes. The amount of tax revenue it will bring in depends on the degree of enforcement which, in turn, depends on whether Congress gives the Service a sufficient number of investigators and auditors to ferret out the cheaters. But the objective is more tax income. So, also, is the purpose of President Eisenhower's new Executive Order making available for state tax commissions, Federal returns on estate or gift taxes. In the process of turning up violations of state tax laws, Federal cases are likely to come to light. And tax deficiency assessments are in the cards.

▶ Britain seems more advanced in the study of automation, how it comes about, and what its effects are, than this country. The result is that some well-documented reports now are available. The effect should be to make management less hesitant to try improved methods: it appears that the horrible results pictured by organized labor simply don't show up in practice. Automation has been a valuable word for pay scale committees seeking to add broad fringe benefits to normal wage and hour pacts. Usually it is spoken of as something to be faced. Actually its growth has been most accelerated over the period when employment reached its highest peak, hourly wages did the same.

▶ Automation does not result in overnight mechanization of an entire firm. It doesn't cancel payrolls and start pushing buttons or winding robots. While some firms have introduced advanced automatic techniques, the innovations are departmentalized, don't cover an entire plant. These are the core findings of the British Political and Economic Planning group. The researchists have made detailed studies of three mechanizations: the LEO computer, the Stanlow Platformer, and a bearing tube company. This covered manufacturer of bearing tubes, refining methods and office machines. In the manufacture of tubes productivity increased more than 200 per cent, the LEO was found to do the work of 200 to 400 clerks per shift.

▶ The application of automation showed the need for more management and supervisors, more skilled maintenance workers. It confirmed the findings of "Automation", a report of the International Labour Office, which warns against exaggerated fears of skill requirements, worker dislocation, and dismissal. The problems were met by planning on the part of labor and management for youth and adult training. In none of the three British cases did re-education of workers to meet automation needs present long-term problems. ILO foresees the promise of higher productivity of goods and services, higher living standards, higher wages, shorter hours and increased leisure, more teamwork between management and labor in order to get the best results from automatic techniques.

▶ Decision of Senator William E. Jenner not to seek re-election poses a problem for the Republicans in Indiana. President Eisenhower had found Jenner not as cooperative as he wished and has declined to answer press conference questions whether he would support the Indiana member next time. This widens the breach between the Old Guard and Modern Republicanism; the old party regulars had no more faithful leader than Jenner. He was the closest Senatorial friend and defender of the late Joseph McCarthy. In Indiana, Senator Homer Capehart, Republican, is the core of Eisenhower strength. On this and other points, he split with Jenner to such an extent that Jenner once threatened to resign so he might run against Capehart when the latter's term expired. That he would have defeated Capehart was the forecast.



As the Sands of the Sahara Desert YIELD BLACK GOLD

—The various countries involved—and the political undertones in the scramble for concessions

By John Forrester

For almost two years now oil has been poured on the troubled waters of Algeria. Yet, the effect has been far from calming. Superimposed on a long-standing civil war between the French authorities and the native Algerian independence movement—at a cost of some 50,000 casualties and a couple of billion dollars in military expenditures so far—its main effect has been to make both sides more determined than ever to hold on to their positions. For the large-scale oil finds in the Algerian Sahara have added a powerful economic motive to a struggle which up to then had been fought mainly on the emotional issue of French sovereignty vs. Arab nationalism. They have also made the Algerian dispute a matter of direct concern for the world oil industry, including half a dozen major U. S. companies.

The search for oil in Algeria is not new. Already before the turn of the century oil was located in commercial quantities near Algiers. Since 1949 a small production has been under way near that city. However, it was not until 1952 that the big push began to determine the subterranean wealth of the Sahara. The effort is still only in its infancy but it has already had some remarkable results. At Edjele and Tinguentourine, near the Libyan border, a major oil find was encountered early in 1956 thus giving the first clear proof that the geological structure of the Sahara contains important oil pockets. The reserves of this first oil find have not yet been fully evaluated but they are conservatively estimated

at 350-400 million barrels. Since then a number of other significant oil-bearing areas have been found in widely separated parts of the Sahara.

The most important of these is the giant Hassi Messaoud field which was discovered almost by accident. A wildcat well had been drilled to a depth of about 6,500 ft. without encountering oil. The company had already decided to pull it up and try its luck elsewhere when the drilling superintendent on a hunch decided to deepen the well a bit more. The result was the discovery of an oil well which at its first trial run delivered a quantity of nearly 1,700 barrels a day. Since then several additional wells have been drilled in all directions from the discovery well without encountering a single dry hole. Thus, there is no doubt that Hassi Messaoud is a very big oil field by all standards. Its reserves are at least 750 million barrels but probably over 2 billion. It is a good many years since a field even one quarter that size has been found anywhere in the U. S.

Total Saharan Reserves Are Tremendous

The most recent Saharan discovery is a major natural gas field whose gas is so "wet" that each cubic meter of it yields nearly half a gallon of natural gasoline as a byproduct. Together with a previously discovered field it could supply all of North Africa's gas needs for the next fifty years.

While no overall estimates of the Sahara's total oil reserves are yet possible it is quite certain that the oil deposits located up to now are not merely isolated oil pockets but are definite indications that the whole 800,000 square miles of sedimentary basin in the Sahara is of the oil bearing type. According to some French geologists the Sahara might contain one quarter as much oil as the Middle East which has two thirds of the world's total oil reserves. These geologists recognize that the unusually happy combination of circumstances existing in the Middle East is not found in the Sahara so that perhaps only half of the area's total oil reserves can be commercially exploited (compared to 73 percent in Kuwait). But even if this factor is taken into account, these geologists still estimate total recoverable reserves at 10 to 14 billion barrels. This would definitely put the Sahara into the major league among the world's oil producing countries. Furthermore, Saharan oil is of such high quality that it is used in its unrefined state as motor fuel for the engines and vehicles at the drilling sites. This would make it particularly suitable for the American refineries which – contrary to the European ones–are built for a maximum production of gasoline and only a minimum output of fuel oil.

Effect on French Economy

Economically and politically the consequences of the Saharan oil discoveries will be of the first order for both France and Algeria. France is plagued by two major economic evils: a $1.2 billion annual foreign trade deficit and a $1.5 billion annual military expenditure to maintain its sovereignty in Algeria in the face of the activities of the rebel forces. Saharan oil could bring an end to both these drains which now threaten to all but destroy the French economy.

At least two thirds of the foreign trade deficit is accounted for by the importation of oil and coal. In another 12 years atomic energy may make it possible to stabilize, or even reduce, the importation of these fuels. Meanwhile, only the large-scale discovery of domestic fuel sources can bring about a basic redress of the country's foreign trade balance, since the consumption of energy is certain to keep growing.

This is where the Sahara comes in. According to official French government statements, Saharan oil will begin to flow in commercial quantities by January 1958. At first the amount will be quite insignificant, about 5,000 barrels daily from a combined 6 inch "baby" pipeline and railroad, connecting Hassi Messaoud to the Mediterranean port of Phillipeville whence it will be transported by tanker to the big Shell refinery near Marseilles. However, by 1960 it is hoped that a 24 inch pipeline from Hassi Messaoud and a smaller one from Edjele will permit an outflow of at least 200,000 barrels daily, while by 1962 the total outflow from these two and several other fields should amount to 450,000-500,000 barrels daily. This would give the Sahara an output equal to 40 percent of that of Saudi Arabia today. For France these figures would cover one third of total oil import requirements in 1960 and nearly two thirds in 1962. The savings in foreign exchange would run into several hundred million dollars per year from 1960 on.

France's Algerian Stake

Aside from these major economic consequences, such a development would also free France from its dangerous economic dependence on the Middle East, whence it receives now the bulk of its oil. This dependence has always been wrought with political danger for France but it is even more so now, in view of the Middle East countries' public support of the Algerian rebels.

It is no wonder therefore that the Saharan oil finds have been hailed as the most important event in France's history since the end of World War II. It is quite doubtful whether the French people would be willing to bear the terrific burden of maintaining a French Algeria much longer, were it not for the prospect that that arid and resourceless country, which has never yielded France any important economic benefits in the past, will soon supply the bulk of France's oil needs. Some French political parties are already asking how long France can continue to "pacify" Algeria, particularly if it does not even

have the full support of its two traditional allies, Britain and the U. S., as our recent hands-off attitude during the Algerian debate in the U.N. has shown. Premier Felix Gaillard and some of his Cabinet have answered this by trying to belittle the real cost of the Algerian war with such statements as that it amounts to "no more than the annual deficit of the French railroads". However, most informed Frenchmen know full well that the Algerian "pacification" is one of the main reasons for the precarious state of their country's economy.

If they are willing to continue to shoulder this burden, it is to a large extent due to their expectations from the area's emerging oil wealth. For rarely has any development of this type caught the public fancy as this one has. Practically every day, new ventures are being formed to participate in the exploration of this new area and the public eagerness to invest in them is without precedent in France. Some of the stock issues put out by the new concerns are oversubscribed within a matter of hours. This happened recently to an issue of 10,000 frs. ($23.75) shares totalling 14 billion frs. ($33 million), formed by a group of French banks. Other issues have fared similarly well. This attitude, quite unusual for French investors, reflects clearly the confidence of the public not only in the Saharan oil deposits but also in the political future of Algeria as part of the French Union. The larger the number of such investors the less likely is it that the French will accept any solution of the Algerian problem which does not permit them to maintain some sort of sovereignty over Algeria, regardless of the cost of such a policy.

Outside Capital Will be Needed

Yet, despite the eagerness of the French public, the amounts involved to develop the resources of the Sahara may well be too large to be met exclusively by France. Saharan Affairs Minister Max Lejeune has estimated that between 1958 and 1960 some 250 billion frs. ($600 million) will be needed for search, production development, construction of storage and oil terminals and the building of the two pipelines to the Mediterranean. Following this another 100 billion frs. ($235 million) will be required to bring production up to the desired goal of 500,000 b/d by 1962. Thus, a total of nearly one billion dollars will have to be spent over the next five years in order to turn the world's most desolate desert into a major producer of the black gold.

These staggering amounts as well as the need to have the best personnel and equipment available for this gigantic job have caused the French government, after a good deal of initial hesitation, to invite all bona fide foreign oil companies to invest in the Sahara in order to share in its wealth. Up to now, only Royal-Dutch Shell holds exploration licenses in that area. In fact it was on a concession owned 35 percent by Shell that Edjele, the first major oil well in the Sahara, was brought in. Shell has also a 65 percent share in the Compagnie des Petroles d'Algerie (CPA). This makes the CPA the only foreign *controlled* oil company in the Sahara. It is unlikely that it will be followed by any others, since the government's Petroleum Exploration Bureau has now let it be known that it will not issue exploration or exploitation licenses to any foreign concern which has not formed a joint venture with a French concern, with the foreign concern controlling no more than 50 percent of the ownership.

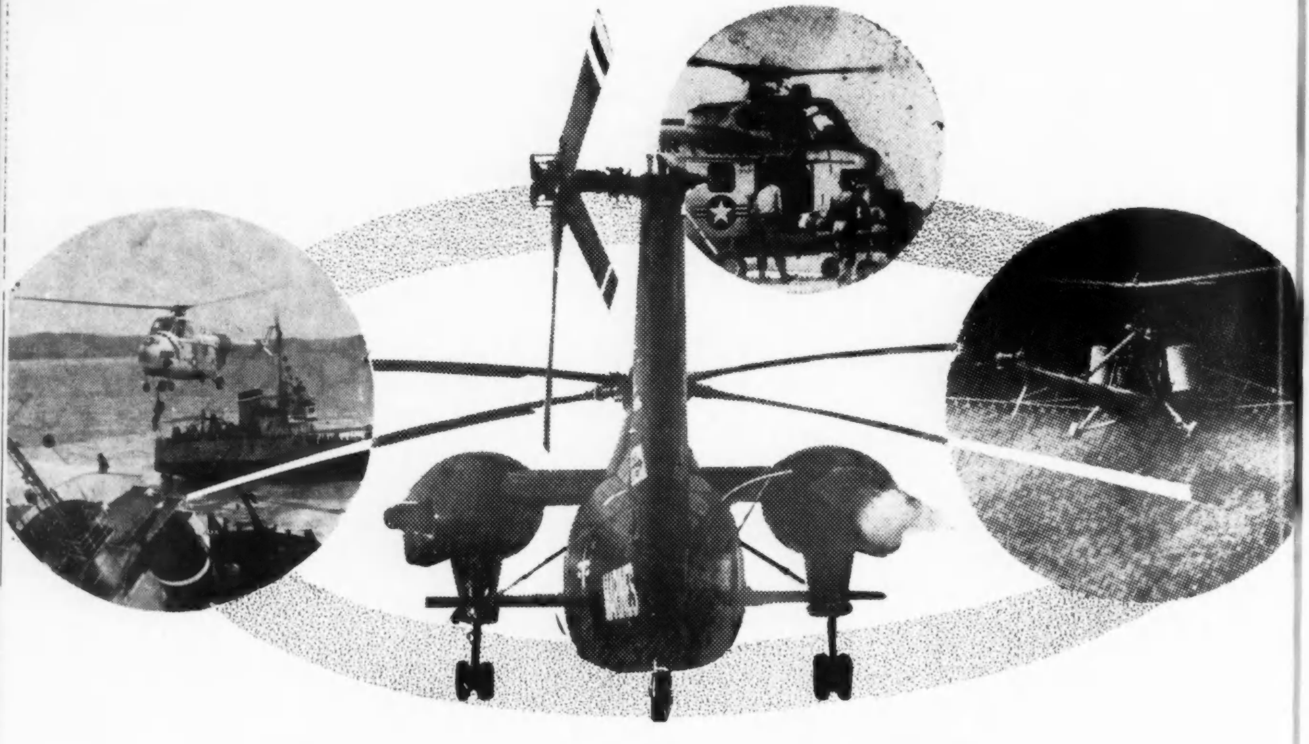
Partners in Oil

As a result of this restriction there has recently been a veritable mushrooming of partnerships between foreign and domestic companies for the purpose of applying for exploration licenses in the Sahara. The most prominent among the foreigners are the Americans. Sinclair Oil, Phillips Petroleum, Cities Service, Tidewater Oil, Texas Eastern Transmission, Newmont Mining, Standard Oil of Indiana and Canadian-Delhi Oil have all declared their interest in the Sahara and have either already submitted exploration applications or are negotiating for a suitable French partner in order to do so.

Among those who have already found partners is Cities Service which has formed a venture with the two well-known French banking houses Rotschild Frères and Worms & Cie and with the French State oil agency BRP. Sinclair Oil and Newmont Mining have formed a consortium which includes BRP, the French investment banker Lazard Frères and an African mining group. Phillips will also link up with BRP as well as with a French oil company, an oil investment concern controlled by Rotschild and with the Suez Canal Company. Esso Standard has not yet announced its intention but is unofficially reported to be discussing a 50/50 partnership arrangement with the Compagnie Francaise des Petroles which is 35 percent government-owned.

French Government Maintaining Part Interest

The most interesting aspect of these partnerships is the fact that in everyone of them the French government has a large share. Thus, the American oil companies going into the Sahara will be official partners of the government which is charged with maintaining French sovereignty in Algeria. The same applies to the non-American foreign oil companies such as British Petroleum and the Belgian concern Petrofina. There is no doubt that France expects to take political advantage of these partnership arrangements by attempting to use whatever influence the non-French oil (*Please turn to page* 423)



WILL THE HELICOPTER BE THE "MODEL T" OF THE AIR?

By MARVIN RAPHAEL

■ It has been said that the helicopter may become the Tin Lizzie of the air. Whether this be true or not, is still difficult to ascertain, but certainly its use and potential should give it a very definite place in the aircraft field in the future.

The helicopter industry is one of the newest and most dynamic industries to emerge after World War II. Helicopters, however, did not receive any real impetus until the Korean conflict, when their maneuverability became apparent in the extreme rugged terrain of Korea, which made other types of aircraft useless in certain phases of operations. The "Whirlybird", as the helicopter is affectionately called, can almost take-off and land on a postage stamp and can maneuver into ravines or along mountain slopes where fixed wing aircraft cannot. Because of its ability to practically stand still in air, the helicopter has accounted for the saving of many thousands of lives.

Many thought that the helicopter might become a leading vehicle for short haul airline traffic, that is, fly passengers from one city to another in a 300 mile radius. Thus far, this has proven to be uneconomical, due to the initial high cost of the aircraft and heavy maintenance expenses. Several lines have been successful, however, in transporting passengers to the downtown areas of large cities from the airports, which are generally some distance away. The helicopter's importance in this respect is pointed up, when one considers that it is a half hour to an hour's drive (depending on the traffic) from one of New York's major airports to downtown Manhattan, while a 'copter can fly this distance in a matter of minutes. This service is presently used in only three cities, New York, Chicago and Los Angeles, and the need for use in other communities seems apparent. Another use in time saving is the carrying of mail from the airports to the cities.

New Principals

From the development of the helicopter, and its ability to land and take off in one spot and to hover in the air, we are now entering another era. This is in the field of TOL, or vertical take-off and landing, using a fixed-wing aircraft. Also, STOL, or short take-off and landing, is being developed. Using the VTOL principal, a fixed-wing aircraft, standing on its tail, can leave the ground, fly straight up, and then fly horizontally, returning by landing straight down on its tail. The STOL is actually a variation of the same idea, with the plane taking off in the

conventional manner, but from extremely short runways. Another new and interesting idea is the "flying crane". This entails a rotary wing aircraft stripped to essentials minus the weight structure of conventional cabins. We are not suggesting that helicopters are about to be replaced by the VTOL, STOL or the flying crane, but rather, we feel that by using the copter principles, many companies might find new prospects in this rapidly growing field.

Military Uses Predominate

The military is still the most important customer of the helicopter industry. The military have many uses for this machine such as air-sea rescue, surveying, hospital transportation, artillery spotting and in uses where a fixed wing aircraft is not able to land or even fly. Commercial use is also growing, and in addition to those uses mentioned above, the 'copter has performed as a sprayer, seeder and duster, has done police and border patrol work, mining prospecting, and is in use wherever places are inaccessible.

There are many companies, at present, involved in some type of research development and production of helicopters, but the leader in the field is giant **United Aircraft Corporation**. Although United is best known as a leading producer of engines and propellers, United's Sikorsky Division pioneered in the 'copter field. Last year, United Aircraft's total sales amounted to about $955 million and it has been estimated that Sikorsky may have accounted for approximately 16% or about $153 million of the total. This makes United by far the dominant factor in the helicopter industry. Undoubtedly, a great portion of these sales go to the military, but commercial business seems to be picking up each year. The company does not break down earnings for its various divisions, so that it is very difficult to determine how much the Sikorsky Division contributes to the parent in the way of profits. Furthermore, United releases very little information concerning new developments in this division, but a number of models of three basic types of copters—the S-55, the S-56 and the S-58—are in production. Besides the intensive engineering development programs involved in these aircraft, Sikorsky has been working on such promising projects as turbine-powered helicopters and rotary-wing cranes. The eight-place S-55 has been in quantity production since its widespread use in the Korean War where its versatility was exploited in a multitude of rescue, cargo and passenger transportation operations. At present, it is in use by both military and commercial operators. The S-56 was originally designed as an assault aircraft for the Marine and Army ground forces. It is capable of carrying 26 fully-equipped combat troops. The S-58 is twice as large as the S-55 and is used extensively by the military and others, including the French Government, Sabena Airlines (which has pioneered helicopter transport service on the European continent), New York Airways and Chicago Helicopter Airways. Many S-58's have been ordered for work in oil fields such as New Guinea (mentioned above), and in the Canadian bush country.

In addition, United Aircraft's Pratt & Whitney Division is the largest single manufacturer of jet engines in this country. While the Government takes almost all of United's jet engine production at the present time, the introduction of commercial jet transports late in 1958 or early 1959 will put this company back in the commercial transport engine field. Of all the commercial jet transports now on order, about 90% will use Pratt & Whitney engines. In the first nine months of this year, United Aircraft reported sales of $872 million vs. $668 million and earnings of $7.13 a share against $5.39. It looks like the company may show a record sales volume for all of 1957 of more than $1 billion, and earnings of over $9 a share. It should be realized that the per share earnings are without taking into effect the recent 20% stock dividend.

Another important company in the helicopter field is **Bell Aircraft**. Formerly, a leading factor in fighter aircraft, Bell is retiring from this area of activity and is diversifying both within the aircraft industry and into commercial non-aviation products. Besides being a leader in the commercial and military helicopter industry, the company has done extensive research and development work on the convertiplane and a gas turbine-powered helicopter. Bell's four-place utility executive model copter was selected for President Eisenhower's personal use. The President is flown from the White House grounds to the Military Air Transport Terminal across the Potomac River, at which presidential flights originate. Interesting to note is that of Bell's $216 million sales volume, reported last year, helicopter sales accounted for $56 million, of which commercial business to-

Leading Helicopter Producers

	1956		1st 9 Months 1956		1st 9 Months 1957					
	Net (Mil.) (Mil.)	Net Per Share	Net Sales (Mil.)	Net Per Share	Net Sales (Mil.)	Net Per Share	Indicated Div. Rate 1957	Recent Price	Price Range 1956-57	Div. Yield
Bell Aircraft	$216.0	$2.21	$156.2	$1.73	$151.3	$1.16	$1.00	17	27 -11¼	5.8%
Cessna Aircraft	50.0[1]	3.88[1]	66.2[2]	5.48[2]	70.0[3]	5.05[3]	1.40[8]	21	45⅝-20⅛	6.6
McDonnell Aircraft	335.2[4]	6.34[4]	57.3[5]	1.17[5]	110.1[5]	1.41[5]	1.00[8]	26	44¾-18⅛	3.8
Ryan Aeronautical	47.0[6]	2.80[6]	33.0[7]	2.44[7]	46.2[7]	2.88[7]	.40[8]	24	43½-19	1.6
United Aircraft	954.3	7.06	666.7	5.39	869.5	7.13	3.00[8]	55	96½-50⅜	5.4
Vertol Aircraft Corp.	90.0	5.76	63.0	4.38	59.8	2.69	[9]	16	46⅛-13½	

1—Year ended Sept. 30, 1955.
2—Year ended Sept. 30, 1956.
3—Estimated for fiscal year ended 9-30-57.
4—Year ended June 30, 1957.
5—Quarters ended Sept. 30, 1956 & 1957.
6—Year ended Oct. 31, 1956.
7—9 months ended July 31.
8—Plus stock.
9—Paid 10% in stock.

taled $8 million.

Bell has extremely good prospects in the guided missile field, and as an indication of its achievements was awarded an Air Force contract for the Rascal, an air-to-air missile. The company also does extensive work in electronics, rocket motors and bomber assemblies. Along commercial non-aviation lines, the company makes molded glass products, control valves, hydraulic presses, products for the gas appliance industry, and blast cleaning equipment. Because it is in promising growth fields, backed by a highly regarded research organization, Bell Aircraft appears to have a bright future.

Although **Cessna Aircraft Company** entered the helicopter field comparatively late, it has already shown a marked achievement, with orders from the Army for its four-place "Whirlybird". Not only does Cessna have a stake in the helicopter industry, but it is also a leading manufacturer of private planes. As one of the three major producers of light civilian aircraft, Cessna did about 60% of its business last year ($66 million) in this area. The company's planes start at $9000 for a four-place single-engine model and range up to $55,000 for a five-place twin engine job. A new eleven-place four-engine model costing around $375,000 is expected to go into production sometime next year. The company also makes a single engine training plane for the Army and the French Government, and does subcontract assemblies for the Boeing B-52 and Lockheed's trainer. Furthermore, Cessna has been building a twin-jet trainer for the Air Force under contracts amounting to over $70 million.

McDonnell Aircraft, one of the newer airframe manufacturers, has become, since its inception in 1939, a leading supplier of fighter planes for the Navy. The company also has an important contract for an Air Force twin-jet fighter, the F-101, which is considered one of the hottest planes being produced and operational today. McDonnell is participating importantly in the guided missile program. It is the prime contractor for the Green Quail, an air-to-surface missile still in the developmental stage, and the airframe and power plant manufacturer for the Talos, a surface-to-air missile, with a range of about 100 miles. McDonnell is in helicopters, with development work progressing on a cargo loader and flying crane for the Navy and a convertiplane for the Army.

The company that made possible Charles A. Lindbergh's memorial flight from New York to Paris in 1927 in the Spirit of St. Louis, is today a well-diversified unit in the aircraft field. **Ryan Aeronautical** is a leading supplier of large components for airframes and jet engines and produces exhaust system, rockets and ramjet engines, and electronic equipment. The company is in the missile field quite extensively as a developer and produces guidance systems and complete rocket motors. Ryan's Firebee jet target drone is actually a pilotless plane, and is used as a realistic target in training anti-aircraft crews, radar men and gunners. Because of its capability of high performance in speed, altitude and maneuverability, it is also extremely useful in evaluating the effectiveness of guided missiles, which can only be proven, and the techniques of their use perfected, by practice against targets which as nearly as possible duplicate potential enemy jet aircraft. The company has further broadened its line of products in the VTOL area. As a pioneer in VTOL, Ryan has two projects presently, the Vertijet and Vertiplane. The Vertijet, designed and developed for the Air Force, is the world's first jet-powered vertical take-off and landing airplane. A recent top television show spent approximately a half hour showing movies of this aircraft's successful flight. The Vertiplane is not much different in appearance from a conventional aircraft, but will be able to take off straight up in a horizontal attitude, then fly forward in the normal manner, and land without a ground run.

As one of the three largest companies engaged in the development and manufacture of helicopters, **Vertol Aircraft** has concentrated solely in this field. The mainstay of the company's business at present is the H-21, a 22 passenger "work horse" helicopter. While most of these have been delivered to the U. S. Government, the French have also placed substantial orders. The French have used the H-21 quite successfully in the Algerian campaign. Another major contract was obtained from the West German Government for this particular 'copter. Vertol is also developing the H-21D, a new model to be powered by two-shaft turbine engines. These engines were developed specifically for helicopter use, and in addition, to providing multiengine reliability and reduction in vibration, which together with the new design of this copter, may enable the H-21 to carry almost half again more payload at a 50% increase in speed. Vertol is also working along VTOL and STOL lines. Last year, Vertol and Northrop Aircraft considered merging. However, at the last minute, Northrop withdrew its offer and negotiations ceased. While there appears to be nothing imminent along this line, Vertol could be a profitable division for a large aircraft company.

The United States is not the only country developing helicopters. Both the British and Russians are also very active in this field. Fairey Aviation Co. of England has introduced the Rotodyne which was designed to beat both helicopter and fixed-wing transports on short haul routes. Rotodyne is a twin-engined airliner which combines helicopter take-off and land performance with the cruise economy of a fixed-wing airplane. In its present configuration it can carry a 10,000 lb. payload or 40 passengers. Fairey will also have available a larger fuselage for future models which will increase passenger capacity to 50.

Major importance of Fairey's Rotodyne will lie in its ability to operate from city-center with a large payload. The vital and highly competitive route from London to Paris now takes more than four hours by the fastest way available and on occasion can grind on to five hours or an average speed of about 42 mph. Fairey states the Rotodyne can reduce this to less than two hours with an allowance of 30 minutes for passenger handling and a 15 knot headwind figured in.

The Rotodyne might have a potential in the United States. It has been reported that one helicopter transport firm might use it here as an answer to the problem of providing service to the middle of the metropolitan area without offending the sensitive ears of its residents.

Recently the Russians unveiled a twin turbine engine helicopter as part of the 40th anniversary celebration of the Russian Revolution. According to reports from the Soviet Union this copter can carry a 12-ton payload to an (*Please turn to page* 424)

Companies Adjusting Profit Sights to 1958 REALITIES

Where up—Where down

By DAVID BELL

■ Earnings forecasts by corporate officials early this year were generally optimistic. It was expected that sales would be well maintained and that profit margins, while somewhat restricted, nevertheless would be good and that profits would be maintained or improved over 1956. There were some factors which could not have been forseen, namely the stretchout in the defense program, cost of living wage increases, and several strikes affecting various sections of the country such as the cement workers walkout, the New York Dock strike, etc.

However, the main factor affecting corporate operations and profits has been the slowdown in the business boom, evident to some early in the year and unpleasantly apparent to all now. Therefore it appears that most corporate officials (and analysts) misjudged the trend of business and failed to anticipate the decline which continues to accelerate.

Consequently, corporate executives, with a few notable exceptions are changing their tunes noticeably this year. In most cases, forecasts are just not forthcoming—or are hedged effectively enough to make them no forecasts at all. But there are a number of companies willing to face the immediate future with candor, calling their shots as they see them.

Thus, North American Aviation, after cancellation of its Navaho missile contract, and expiration of a long standing fighter contract, frankly estimated earnings for the balance of 1957 and early 1958 as below recent levels. Nevertheless, the company's established position in missile engines, electronics and a host of other vital defense sectors places it well in line for future government outlays.

Westinghouse earlier in 1957 estimated 1957 earnings at approximately $3.90 per share, and that prediction has been borne out. As a result, company executives have now raised their sights to about $4.00 per share for 1957, with no change in the steady recovery expected in 1958.

Disappointed Roadbuilders

With a full-scale federally backed roadbuilding program expected to get under way in 1957, most equipment makers entered 1957 with a confident air. However, although actual progress in construction has improved in recent months, it became apparent by summer's end, that temporarily, at least there was adequate equipment for the nation's needs. Bucyrus Erie, an industry major was forced to reduce its dividend earlier in the year, after several prosperous years; and most recently Caterpillar Tractor reported a sharp drop in backlogs, and curtailment of some of its operating divisions. As result, the higher earnings expected for the year will give ground under the four-day week schedule the company is now maintaining.

Clark Equipment, a leading manufacturer of materials handling equipment has also been forced to lower its sights, owing mostly to its recent diversification into the roadbuilding equipment field.

Significantly, even though the federal program appears to be picking up steam, none of the companies have seen fit to raise their sights for 1958.

Steel Miscalculation

Steel managements, optimistic early in the year, misjudged the summer slump and subsequent sharp

20 Companies Lowering Earnings Sights

	1956		1st 9 Months 1956		1st 9 Months 1957					
	Net Sales (Mil.)	Net Per Share	Net Sales (Mil.)	Net Per Share	Net Sales (Mil.)	Net Per Share	Indicated Div. Rate 1957	Recent Price	Price Range 1956-57	Div. Yield
American Can	$ 771.6	$2.90	$638.5	$2.37	$661.1	$2.41	$2.00	39	49⅛-37¼	5.1%
Bendix Aviation	581.4	5.04	437.3[4]	3.21[4]	541.1[4]	3.97[4]	2.40	48	66¾-42	5.0
Caterpillar Tractor	685.9	6.08	508.5	4.50	532.5	4.07	2.40	63	99½-55½	3.8
Celotex Corp.	76.4	6.43	57.5[5]	4.98[5]	49.0[5]	2.85[5]	2.40	27	47⅞-23¼	8.8
Chicago & Eastern Ill R.R.	37.6[1]	5.14	27.7[1]	4.11	28.8[1]	2.24	1.25	13½	24¼-13	9.2
Clark Equipment	145.3	4.11	111.6	2.85	109.0	2.77	2.25	37	75½-36¼	6.0
Columbia Pictures	88.3[2]	4.51[2]	90.5[3]	2.22[3]	101.5[3]	1.76[3]	1.20[14]	14	26¾-13½	8.5
Container Corp.	276.0	1.71	208.9	1.31	192.4	1.07	1.00	18	23¾-16½	5.5
Continental Oil	576.2	2.65	427.8	2.00	454.4	1.78	1.60	45	70¼-42½	3.5
Crown Zellerbach	462.3	3.53	343.9	2.64	350.1	2.03	1.80	46	69⅞-40⅛	3.9
Diana Stores	30.1[6]	1.39[6]	33.0[7]	1.55[7]	36.5[7]	1.64[7]	1.00	14	16⅜-13⅜	7.1
Eastern Air Lines	228.0[1]	5.17	172.4[1]	2.92	199.7[1]	1.16	1.00[14]	31	57¼-27	3.2
Fenestra Inc.	48.3	3.55	38.1	2.45	37.4	1.61	2.00	21	34⅜-20⅛	9.5
Illinois Central R.R.	298.4[1]	7.66	219.7[1]	5.57	217.1[1]	3.46	3.00	29	72¾-27¾	10.3
Interchemical Corp.	111.1	5.40	82.7	3.80	82.9	3.11	2.60	35	59½-29¾	7.4
International Harvester	1,252.0	3.16	913.4[5]	2.18[5]	852.3[5]	1.95[5]	2.00	29	41⅝-28½	6.8
Miami Copper	39.8	11.88	30.3	9.53	22.3	3.04	2.00	27	61⅜-25⅜	7.4
National Gypsum	151.8	3.61	119.0	3.08	107.5	2.50	2.00[14]	41	61⅞-35⅛	4.8
Oliver Corp.	107.8	.76	76.8[5]	.07[5]	69.3[5]	[d].26[5]	.60	8	17⅜- 8	7.5
Wheeling Steel	256.3	8.20	186.7	5.54	196.6	4.02	3.40	39	69¾-35¾	8.7

20 Companies Raising Earnings Sights

	1956		1st 9 Months 1956		1st 9 Months 1957					
	Net Sales (Mil.)	Net Per Share	Net Sales (Mil.)	Net Per Share	Net Sales (Mil.)	Net Per Share	Indicated Div. Rate 1957	Recent Price	Price Range 1956-57	Div. Yield
Allied Laboratories	$ 22.6	$3.97	$ 17.1	$3.10	$ 22.8	$4.24	$1.20[14]	48	63½-23	2.5%
Allied Stores	615.7	5.05	410.5	2.03	422.0	1.59	3.00	40	56¾-39	7.5
Firestone Tire & R.	1,115.1	7.43	813.7[5]	5.27[5]	844.6[5]	5.40[5]	2.60[14]	91	101¼-68	2.8
Georgia-Pacific Corp.	121.3	2.37	77.8	2.11	108.0	1.87	1.00[14]	26	41 -18	3.8
Gladding, McBean & Co.	33.5	2.13	25.1	1.54	27.1	1.68	1.00	18	21¾-10	5.5
Goodrich (B. F.)	724.1	4.90	538.6	3.44	560.8	3.38	2.20	63	89¼-57¼	3.4
Hayes Industries	23.3[9]	2.73[9]	4.3[8]	.03[8]	5.7[8]	.57[8]	1.20	15	18¼-13½	8.0
International Minerals & Chem.	106.1[10]	3.12[10]	18.4[11]	.22[11]	20.5[11]	.28[11]	1.60	29	33⅞-25¼	5.5
Penney (J. C.)	1,291.8	5.68	541.7[12]	2.08[12]	540.5[12]	2.23[12]	4.25	82	101 -75	5.1
Phillips Petroleum	1,033.3	2.77	760.0	2.08	855.7	2.16	1.70	42	56¾-35⅜	4.0
Pittsburgh Forgings Co.	37.5	1.71	n.a.	1.23	n.a.	2.19	1.20[14]	16	20½-14½	7.5
Pullman, Inc.	364.3	5.71	272.4	4.23	315.6	4.98	4.00	52	74¼-49⅜	7.6
Rockwell Spring & Wire	249.5	2.51	186.1	1.75	205.4	2.31	2.00[14]	24	37¼-23¾	8.3
Ruberoid Co.	76.3	2.90	59.2	2.17	62.0	2.50	2.10	33	38¾-28	6.3
Safeway Stores	1,989.3	2.03	1,356.7[13]	1.39[13]	1,448.2[13]	1.74[13]	1.00	26	27½-20⅛	3.8
Sunshine Biscuits	150.5	6.20	n.a.	4.45	n.a.	4.73	4.00	70	78 -65½	5.7
Standard Brands	473.2	3.48	352.6	2.57	386.4	2.96	2.25	41	44⅛-36¾	5.4
Virginian Rwy.	56.4[1]	4.08	41.2[1]	2.84	49.4[1]	3.98	2.60	31	37¾-18½	8.3
Westinghouse Electric	1,525.3	.10	1,015.8	[d]2.80	1,477.2	2.83	2.00	63	69⅝-50⅞	3.1
Worthington Corp.	170.2	6.11	124.7	4.58	140.0	4.61	2.50[14]	49	68½-41⅛	5.1

[d]—Deficit.
n.a.—Not available.
[1]—Operating revenue.
[2]—Year ended 6-30-1955.
[3]—Year ended 6-30-1956 & 1957.
[4]—9 months ended June 30.
[5]—9 months ended July 31.
[6]—Year ended 7-31-1955.
[7]—Year ended 7-31-1956 & 1957.
[8]—Quarter ended Oct. 31.
[9]—Year ended July 31, 1957.
[10]—Year ended June 30, 1957.
[11]—Quarter ended Sept. 30.
[12]—6 months.
[13]—36 weeks ended Sept. 7.
[14]—Plus stock.

drop in output. Third quarter operations were surprisingly poor for some companies. Earnings for some of the smaller concerns were even lower in this quarter than in 1956, the strike period. A further decline in profits is expected by most industry leaders in the final three months of 1957 and the early part of 1958 as the operating rate continues to decline.

However, earnings of U. S. Steel, Bethlehem, Republic, Jones & Laughlin and Youngstown all will be around 1956 levels but net income of Crucible, Alleghany Ludlum, Sharon, Wheeling and Detroit Steel will be off sharply.

Due to the good first half or special circumstances a few companies may show profit improvement for the year. Notable among these is Inland Steel currently operating at 90 per cent of capacity against an industry average of 64 per cent. Sales rose $58 million to $591 million at September 30, and net income climbed to $7.60 a share compared with $6.34.

Oil Optimism Deflated

Oil company officials were generally optimistic both on volume and income early in the year but while sales held up well, product prices declined and many companies will report reduced net income for the year. The most favorable comparisons should be reported by the international companies with Royal Dutch, Jersey Standard, Gulf Oil and Standard of California all reporting higher earnings, but with economic growth slowing down throughout the Free World. 1958 may see some profits retrenchment.

Producing companies such as Amerada, Skelly, Texas Gulf and Seaboard Oil also should announce better earnings in line with earlier forecasts. The refining and distributing companies, however, should report lower earnings due to producer price weakness and higher crude costs. The possibility of lower earnings was not unexpected however as officials of both Tidewater and Atlantic Refining commented publicly on the profit squeeze in their segment of the oil industry.

Rails Dropping Earnings Estimates

The group hardest hit by the slump in business has been the railroads. Drastic traffic declines and higher costs, mainly in wage increases, more than offset the September 25 rise in freight rates. The sharp drop in carloadings recently carried some security prices to the receivership levels of the depression period. While rail managements in general did not anticipate this drop in revenues, neither were they as a group too optimistic on earnings. Some railroad officials who had anticipated granting of the full 15 per cent freight rate increase in their earnings calculations for 1957 were forced to readjust their estimates when only a 7% increase was awarded. (4% for Southern Roads). One of these was the Illinois Central.

Seaboard Air Line annual report commented on the growth prospects in its territory, Northern Pacific looked for a heavy volume of traffic but noted that earnings would be affected by rising costs. An official of Union Pacific early in July expected that gross from railroad operations in the second half would be maintained at 1956 lines. Net income for this road for the first nine months equalled $2.36 a share compared with $2.33.

For 1958, most of the companies are maintaining a noticeable silence, in the face of this year's chastising experience.

Zellerbach Predictions Borne Out

J. D. Zellerbach, Chairman of the Board of Crown Zellerbach Corporation was one of the few American industrialists to predict overproduction in his industry. Earlier in 1957 in the annual report of Crown Zellerbach mention was made of "tenderness in market demand for some of our products" but also accented were new facilities increasing production capacity.

Sales of this company rose by $6 million in the second and third quarters and the nine months total was $7 million higher than 1956. In the face of this rise in sales net income declined $8.5 million due to price reductions in principal products, higher costs and the inability of the company to sell all of the output of its additional productive capacity.

Metal producers were hard hit by price declines with the drop in copper, lead and zinc particularly sharp. Industry leaders had forecast lower earnings and these were confirmed in nine month earnings reports. Nine month net income of Anaconda dropped from $9.80 a share per share to $3.36 a share, and earnings of Kennecott declined from $10.72 to $6.01. Earnings of lead and zinc producers also fell sharply.

Nevertheless, both paper and metal company executives look ahead to 1958 with some confidence – as measures are developed to cope with overcapacity.

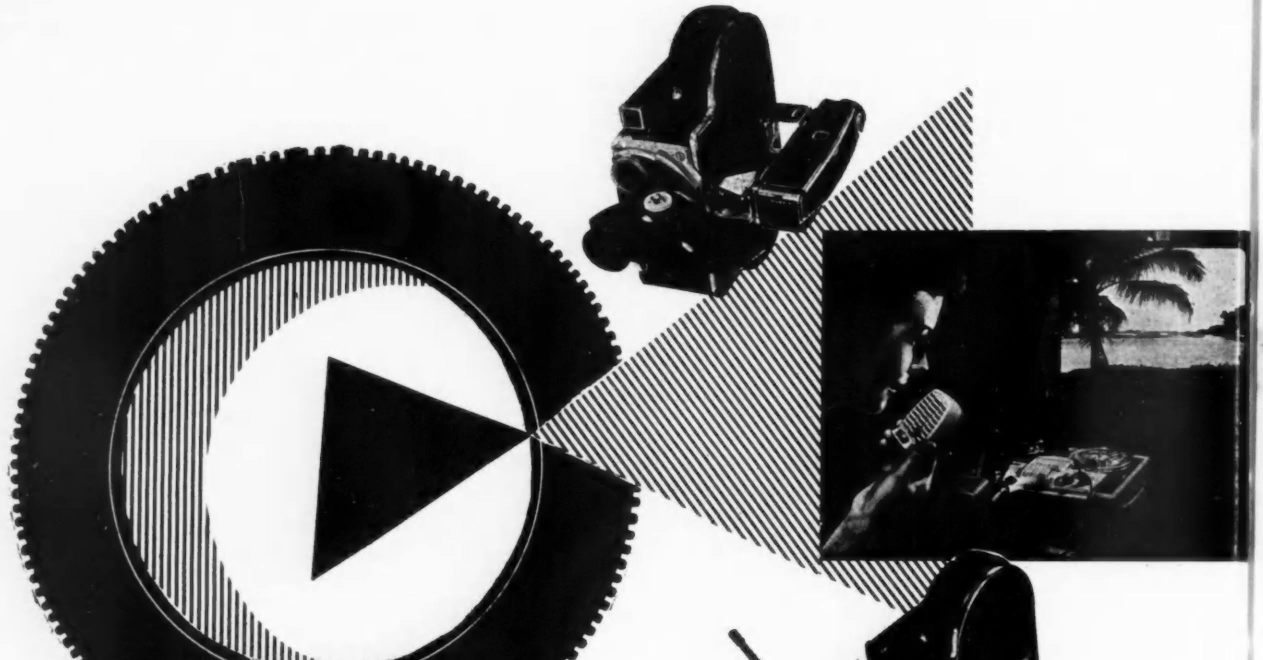
The Flu Bug

The Asian flu and subsequent demand for vaccine helped drug companies attain higher sales predicted at the 1956 year-end. Merck, Pfizer Allied Laboratories and Parke Davis all should report record sales and earnings. However, the mildness of the epidemic may hurt 1958 prospects, since many firms apparently over-invested in vaccines. Sights have not been lowered, but some uneasiness is creeping into company forecasts.

But while the Asian flu epidemic boosted sales of products of the drug companies it had a very adverse affect on attendance in motion picture theatres. Those who had the disease did not go to the movies and many who were not afflicted did not wish to become exposed to the germ. Consequently some of the earlier favorable expectations of motion picture officials will not be confirmed. Loews, Warner Bros. and Columbia probably will report losses for the current quarter. In 1958 furthermore, the industry will undergo its first real test from the highly competitive "pay-as-you-see" TV. As a result, optimism over the new year is missing.

Auto Predictions Conservative

Automotive executives do not usually talk in terms of earnings but rather in numbers of cars to be produced. Undoubtedly 1957 will be a good year although earlier predictions of 6.8 million to 7 million cars will have been proven too high as about 6.2 million will be sold. (*Please turn to page* 421)



Camera Companies Benefiting From
DOUBLE EXPOSURE

—Increased defense orders—more shutterbug enthusiasts

By Joseph L. Stanley

▶ The growth of the photographic industry is identified closely with definite major economic, and business trends which give every evidence of being able to continue far into the foreseeable future. Such prime factors as population growth, the steady increase of purchasing power in the hands of the consumer, the trend towards more leisure time, and the subsequent development of more creative hobbies among which we note photography high up on the list, are strong stimulants in the field of amateur picture making. New uses for photographic techniques and equipment in the collection and maintenance of business records, and the growing use of visual presentation in sales promotion continue to spur growth in the field of commercial and professional photography. In other areas of industry, especially the military, new photographic techniques are constantly widening the scope of this useful technique.

The broad area of photography is subdivided into two major classifications; still and motion picture photography. There have been important developments in each of these two major categories that are having pronounced effects upon the amateur, commercial and professional markets. First, the rapid advances in color photography, the availability of cheaper cameras and film, and the introduction of low-cost equipment for indoor photography plus the rapid public acceptance of on-the-spot development of pictures continue to stimulate the field of still photography. Second, the introduction of electric-eye motion picture cameras, other technical advances which have made movie cameras cheaper, more versatile and easier to operate, and the availability of cheaper color film have made the amateur movie camera market far from saturated. In the realm of commercial and professional photography, among equipment for the photofinishing and processing industry, products for office, industry, the medical profession, and the military is the rapidly growing use of microfilming which probably has its greatest growth ahead.

Industry Highly Competitive

Although the growth of the photographic industry as a whole seems assured, the effect of severe competition, both from foreign sources as well as within the industry itself, plus the sensitivity to economic fluctuations due to the luxury nature of much of its output has a sobering effect upon the outlook for the camera makers. However, this effect can be interpreted as a change from the dynamic expansion of the industry of the past few years to a more steady, gradual growth for the future. Furthermore, the effect upon the individual companies involved is quite varied as to the type of market encountered – amateur, commercial, professional, or military – and the diversification of the manufacturers into other fields.

Home Movies Still Growing

In the field of amateur photography, with the exception of the sensational picture-in-a-minute camera, probably the most promising photographic market is the one for motion picture equipment. The number of families using amateur motion picture equipment in the U.S. has grown from about two million in 1950 to over four million today; and it is expected that their ranks will double again in the next five years. Most of the home movie fans use small cameras which take inexpensive eight mm. film. In addition, among the semi-professional, industrial and institutional photographers, there is a growing demand for sixteen mm. equipment. Sales of cameras, projectors, film editing devices, and other equipment in both 8 mm. and 16 mm. sizes climbed to $150 million last year, compared with $135 million in 1955 and $12 million before the second World War. On the whole, volume is running some 10% ahead currently.

The major publicly owned motion picture equipment manufacturers are *Eastman Kodak Co., Bell & Howell Co.*, and *Fairchild Camera & Instrument Corp.* who is primarily a manufacturer of 16 mm. equipment for specialized purposes. It should be mentioned here that there are quite a number of non-publicly owned companies and some foreign producers that share in this growing market.

The primary reason for the growing sales potential in the amateur motion picture market is a basic shift in the sales philosophy of the movie camera manufacturers. Pre-World War II, the accent of the product was placed on the well-to-do hobbyist with all technical advances designed to make amateur cameras resemble as closely as possible, those used by professionals. The tendency towards faster lenses, more intricate shutters, and revolving turrets, made movie cameras much more expensive and difficult to operate. Since the war, however, the camera makers have been concentrating on producing inexpensive, simple to operate cameras aimed at "capturing" the vast lower income market. Aided by the desire of the American public to "be in the movies", and wartime scientific developments, motion picture cameras were developed that were as simple to operate as still cameras and produced very satisfactor yresults. For example, most 8 mm. cameras now have fixed focus lenses which permit a minimum of adjustments and today, even an electric eye is incorporated into the camera for further simplification. In the broad sense there is even a growing tendency to supplant the family photograph album of the past with a film library in the modern home.

Technological advances have also been accompanied by lower prices. To equip an amateur movie maker yesterday cost about $300; today he can be a "movie producer" for as little as $100. Also, 8 mm. color film has been brought out at a price which makes home movies only slightly higher than those taken in black-and-white. Thus it is easy to see that home movies have come to "Mr. Average Wage-Earner".

Replacement Business Is Slow

This broadening of the market has been accomplished largely through heavy investment in labor-saving machinery. A ratio of one machine for every one and one-half workers has resulted in financial returns that have exceeded expectations for the industry.

Yet this bright picture for the industry is not exactly in the best possible focus. One difficulty stems unfortunately from the high quality of the equipment the industry turns out. Much of it is still in service after years of use, naturally limiting the resale market. To combat this, much of the industry's research work is designed to create planned obsolescence by building new features into today's cameras to make today's photographers eager to

Manufacturers of Cameras and Photographic Equipment

	1956		1st 9 Months 1956		1st 9 Months 1957					
	Net Sales (Mil.)	Net Per Share	Net Sales (Mil.)	Net Per Share	Net Sales (Mil.)	Net Per Share	Indicated Div. Rate 1957	Recent Price	Price Range 1956-57	Div. Yield
Bell & Howell	$ 45.5	$3.78	$ 30.1	$1.89	$ 32.8	$1.81	$1.00	39	50⅞-28¼	2.5%
Eastman Kodak	717.2	4.89	500.7	3.32	541.4	3.41	2.70[4]	97	115 -75¾	2.7
Fairchild Camera & Indus.	42.9	1.91[1]	29.5	1.90[2]	28.3	1.00	....	19	27⅜-16	....
Polaroid Corp.	34.4	.98	22.4	.63	30.5	.87	.20	42	52 -25¼	.5
Sylvania Electric Prod.*	332.3	4.11	246.1	3.20	251.8	2.37	2.00	33	55⅞-30½	6.0
Technicolor, Inc.	29.4	.60	n.a.	.51	n.a.	.29[3]	.12½[5]	4	13¼- 3½	....

*—Acquired Argus Cameras Inc.—1-2-1957.
n.a.—Not Available.

1—Includes $.43 a share from sale of assets.
2—Includes $.90 a share from sale of assets.
3—After profit of $.30 a share from sale of land.
4—Plus stock.
5—Directors 7-25-37 omitted dividend.

purchase new cameras. Also it is possible that foreign made cameras may be imported in avalanche proportions in the future. Some 32,000 foreign cameras were sold here in 1956 compared to 18,330 for the previous year. However, most of these cameras are highly priced instruments which are not able to hurt the low-priced market as yet. A glimpse into the future stil bodes good tidings for the movie camera manufacturers; under 10% of U.S. families now own motion picture equipment, whereas 52% are equipped to take still pictures. The manufacturers seem reasonably convinced that most of the latter will provide a market for the former, and more important, approximately one million families are being formed each year, adding to the existing market.

Industrial Market Potential

Unquestionably, the most insatiable market for medium sized cameras and projectors lies in American industry. Some 3,000 companies are spending approximately $156 million this year to have movies made on a fantastic variety of subjects and moreover, more than 150,000 sound projectors have been bought with which to show these films. Such films are used to train employees, time studies and plant safety programs. There is also an especially lucrative field in developing specialized instruments for use in industrial laboratories. High speed cameras, which shoot up to four million frames a second, enable engineers to study the action of machinery in extreme slow motion. These devices usually command prices up to $60,000.

Eastman Kodak is one of the pioneer companies of the photographic industry and has a history dating back to the year 1880. The company has maintained its position as the leading domestic producer of photographic equipment and supplies and is responsible for most of the significant advances and improvements in photographic technology. *Kodak* probably accounts for over 50% of total domestic sales of photographic goods. The company participates through subsidiaries, in practically all important foreign markets and its worldwide business remains an important factor in its operations. Domestic sales of $762 million were 7% over 1955 and as has been the case for some years, sales abroad of $205 million as usual exceeded the domestic rate with a 13% gain. Domestic net income rose 10% to $94 million, including $7.5 million dividend remittances from abroad, but foreign earnings totalled $20 million, 21% above 1955. The company has long followed the policy of integrating its raw material position which over the years has drawn it into such fields as cellulose products, organic industrial chemicals and fine chemicals. While these have assumed increasing importance, the photographic business still contributes upwards of one-half of worldwide earnings and is likely to remain the determining factor in the company's affairs.

Probably the greatest setbacks of recent months to *Kodak's* dominant position in the industry was the Justice's Department's decree divorcing the fees charged for processing *Kodak* color film from the purchase price and the introduction of greatly improved Anscochrome by General Aniline & Film Corp. This color film has a speed advantage over Kodachrome which has found a growing demand among buyers of color film but it suffers from a greater degree of graininess leaving Kodachrome still the top quality color film on the American market. The Justice Department's decree allowed outside photofinishers to process Kodachrome and Kodacolor film for the first time. One can appreciate the significance of these developments in view of the fact that for years, Kodachrome stood supreme with 35mm enthusiasts and all Kodachrome and Kodacolor film had to be processed in the Eastman Laboratories.

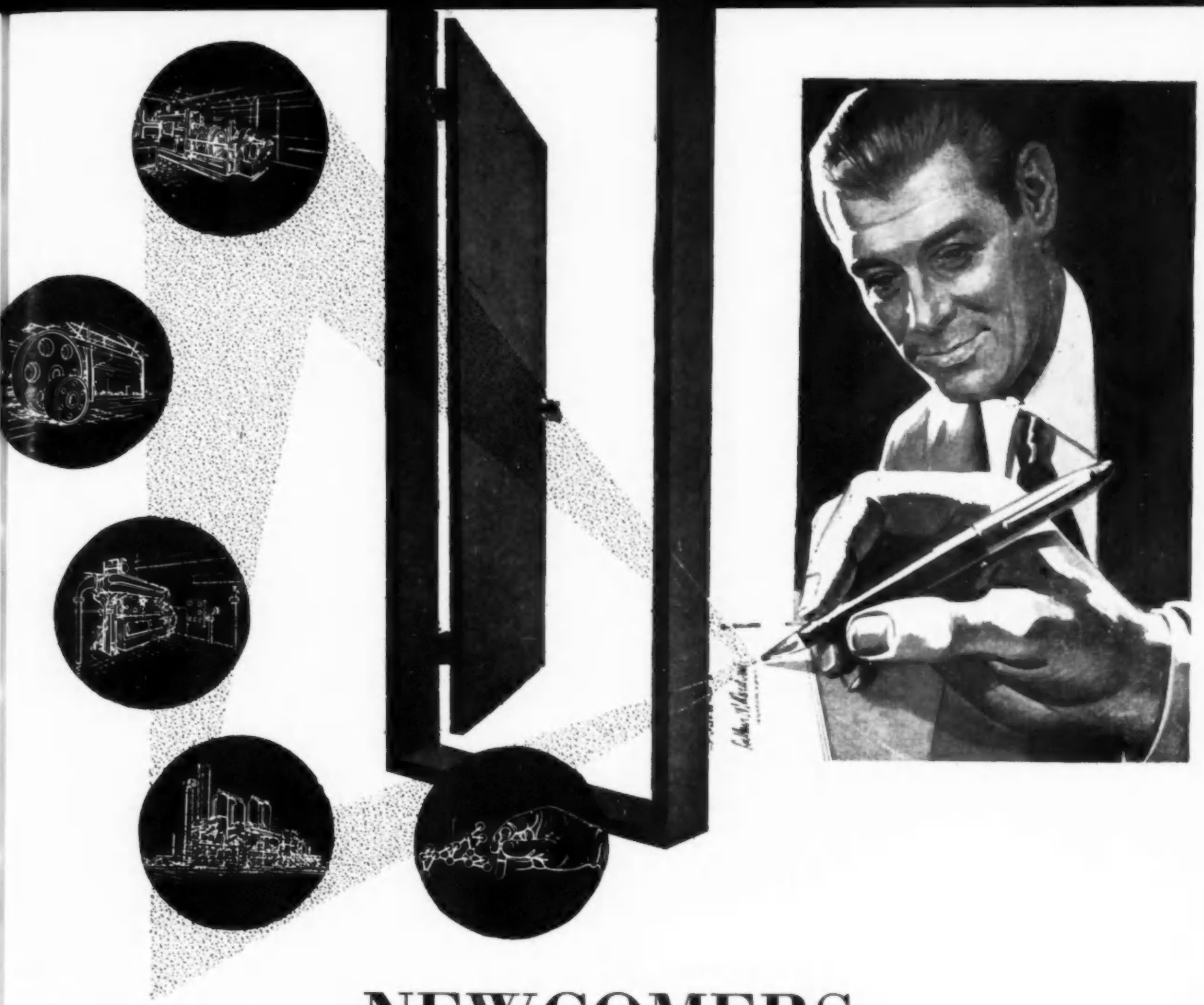
The stakes in the making, selling and processing of amateur still and movie color film are astonishingly large, and promise to become even larger. Surveys indicate that the processing of amateur color film alone amounted to $100 million last year and that the business is increasing at an annual rate of about 10%. However, *Kodak* still is processing over 90% of its color films and it probably will take much time to wean away customers from their habit of sending their films to a *Kodak* laboratory. At the moment, *Kodak* has little to fear in the sale of color film itself despite the competition it faces elsewhere.

On the whole, *Eastman Kodak* is one of the great world companies, and it straddles and participates in many markets. Although competition has been severe, the company has been able to maintain its profit margin, improving the return on invested capital. Supported by excellent research, *Kodak* is in a position to grow with the photographic industry, and to benefit in the chemical field's obvious growth.

Bell & Howell is one of the best-known names in high-quality photographic equipment with most of its income derived from movie cameras and equipment. Net income equal to $3.84 per share was reported for last year, up from $3.51 in the previous year. In the same period, sales rose from $42 million to $46 million. For the first nine months of 1957, earnings per share dropped sightly as a result of heavy expenses for the introduction of new products. The fourth quarter is expected to be the best in company history.

Recently *Bell & Howell* created somewhat of a new ingenious 8mm. electric eye movie camera which utilizes solar energy to adjust the lens setting. The company says that the camera so simplifies home movie-making that the present market of six million people may double in the next five years. All the user has to do is aim the camera and push the starting button. The new camera converts light energy, striking the selenium cells of its built-in light meter, into electrical energy that drives gears controlling the aperture in the lens diaphragm. If the light gets too weak for good picture taking, a bright yellow indicator in a corner of the viewer goes dark and if the operator wants special effects, he can switch to manual control. This camera is destined to create somewhat of a revolution within the amateur motion picture market and it is expected that the other manufacturers will soon follow suit in bringing out similar cameras.

Although *Bell & Howell* places great emphasis on the amateur movie maker, their markets and products have been vastly broadened and diversified. A substantial portion of sales fall into such categories as microfilm and microfilm equipment, sound projectors, film printers, and special military products, among others. One such special military product is a new system for (*Please turn to page* 422)



NEWCOMERS to the N. Y. STOCK EXCHANGE

By Our Staff

1957 was a record year for new listings on the New York Stock Exchange. Through October, 45 newcomers had entered the ranks, 10 more than in all of 1956. Moreover scores of others were turned away, since for one reason or another they could not meet the listing requirements of the exchange.

Of special significance this year is the appearance of important foreign companies arong the new listings, indicating that Exchange president Keith Funston's policy of wooing selected foreign firms is paying off. By far the largest of the newcomers is one of these foreign companies, the immense Shell Transport & Trading, a 40% partner with Royal Dutch Petroleum in the mammoth Royal Dutch–Shell Group of international petroleum enterprises. The company is described more fully below.

Second in size is also a foreign enterprise, Italy's largest industrial organization, Montecatini General Mining & Chemical Corp. The company leads Italian industry in the chemical, mining and plastics fields, and is among the country's top producers of a wide variety of other products ranging from primary aluminum to drugs and nylons.

Of the other companies listed, size is the least important factor of interest. As a sign of the times, the list is heavily dotted with electrical and electronic producers ranging from the well established Wagner Electric, which dates back to 1891, to Litton Industries, incorporated as recently as 1953.

Other companies active in new and exciting fields are Consolidated Electrodynamics (electronics and scientific instruments); U.S. Borax, the world's largest borax producer and one of the leaders in high-energy fuel research; Foote Mineral, an important producer of lithium and other rare metals; and P. R. Mallory, one of the leaders in the metallurgical products industry.

Although these 45 companies are new to the exchange, and in some cases relatively new to public markets, few are recently founded organizations.

Newcomers Not New Companies

Smith Kline & French Laboratories, for example, a leading pharmacetical producer had its corporate beginnings way back in 1841, and 10 others trace their histories back to the 19th century. A few, such as Schick, Korvette (E.J.), and the already mentioned Litton Industries, are post-World War II companies, but the rest have long lineages, with a good portion well over 25 years old.

Interestingly enough, despite the record number of new listings this year, the total number of issues traded on the Exchange has increased by only thirteen. A number of companies, such as Phoenix Hosiery and Clopay were delisted, for failure to meet minimum Exchange requirements, while numerous others were lost through mergers of one or more companies.

Cross Section of Industry

In all, the new group represents a fair cross-section of American industry. Included in the list are packaging and container companies, machine tool manufacturers, a major construction firm (Fluor Corp.), two airlines—Delta, and the third foreign entry, KLM Royal Dutch Airlines, which enjoys the distinction of being the oldest commercial airline in existence. In addition, the list has been expanded to include Revlon, a prominent cosmetics maker; Piper Aircraft, one of the leaders in the low-priced civilian aircraft field; another cement producer—Ideal Cement; United Artists, a major distributor of motion pictures; and the well-established Hammond Organ Company.

Below 7 companies have been treated in more expanded fashion. Each one is of interest, yet no recommendation of any of them is implied by their selection.

Shell Transport & Trading Company, Limited, through its 40% ownership of the Royal Dutch Shell Group, is one of the larger international oil companies. Operations are well dispersed and Shell Transport obtains over half of its revenues from the Western Hemisphere.

Shell Transport & Trading Co.'s 40% equity in net income of the Royal Dutch-Shell Group for the third quarter of 1957 is equivalent to 78 cents and for the first 9 months of 1957 equivalent to $2.29 per share based on 81,772,043 ordinary shares outstanding on September 30, 1957, against $1.81 in the like period last year. Revenue gains in the fourth quarter of this year will probably be less than those reported in the earlier months, but results for the full year of 1957 should compare favorably with 1956. Middle East operations are expected to be more stable and a year-to-year rise in foreign demand will contribute to further improvement.

Profit margins should widen on some price increases in several market areas. Also, shipping expenses will be down sharply. Earnings for 1957 are expected to increase to approximately $2.97 a share compared with $2.46 in 1956. The outlook for early 1958 appears encouraging.

The Shell Group has announced plans for a stock offering of between $323 million and $417 million in early 1958. Shell Transport & Trading shareholders will receive an offering to subscribe for $112 million to $154 million of additional shares.

The Shell Group's position in the oil and chemical industry is strong and this enhances the longer term outlook.

While the dividend yield is modest, per capita petroleum consumption abroad is increasing and this augers well for the future.

Fluor Corp. Ltd. was incorporated in California on April 28, 1924, as Fluor Construction Co., successor to a business established in 1912. The present title was adopted in 1929.

Company designs and constructs complete plants for the oil, gas, gasoline, chemical and power industries, and manufacturers specialized equipment for industry, including natural draft and induced draft cooling towers using water and Fin-Fan units using air.

A breakdown of 1956 fiscal year operations were: petroleum installations accounted for 34.73% of sales; Government work, 1.5%; manufactured products, 10.44%; power plants, 5.08%; chemical plants, 44.6%; miscellaneous, 3.65%.

For the 9 months to July 31, 1957 sales were $115,628,000, net income $1,999,258, equal to $2.78 per share. This compares with the like period in the preceding year when sales were $83,091,000, net income $347,707, equal to 48 cents per share.

For the fiscal year ended October 31, 1956 earnings were $1.03 per share compared with $1.72 in 1955.

Backlog was reported on September 11, 1957 at more than $130 million, compared with $80 million July 31, 1957.

On September 16, 1957, company announced receipt of a contract from Commerce Oil Refining Corp. for over $50 million to design, engineer and construct a 43,000 barrel-per-stream-day refinery at Jamestown, Rhode Island.

The common stock was listed on the New York Stock Exchange on November 1, 1957.

The company has been awarded a research contract by the Atomic Energy Commission for testing and development of special forms of uranium, thorium and other nuclear fuels suitable for use in a new power reactor system to use flowing solid particles for nuclear fuels. The company has been developing this system for a year and it may be more economical, require less fuel enrichment, involve less corrosion, and operate at higher temperatures and lower reactor pressures than present reactor systems.

Litton Industries Inc. is a producer and developer of electronic equipment and its components. Products include radar equipment, aircraft and missile guidance and control systems, navigation and communication equipment, power tubes, computers, test equipment and instrumentations, nuclear electronics, microwave power transmitters, precision potentiometers, standard electronics hardware and printed circuitry, etc.

The stock was listed on the New York Stock Exchange on July 30, 1957.

For the fiscal year ended July 31, 1957, sales and other income totalled $28,130,603, with after-tax earnings of $1,806,492, which compares with sales of $14,920,050 and earnings of $1,019,703 for the previous year—an increase of almost 89% in sales and over 77% in earnings. Per share earnings for the 1,193,986 shares outstanding at July 31, 1957

amounted to $1.51 as compared with the previous year's 97 cents. Based on the average number of shares outstanding during the year, per share earnings for 1956 amounted to $1.61 compared to $1.01 the previous year. Backlog at fiscal year end totalled $54 million.

With the recent acquisition of the Maryland Electronics Manufacturing Corp. in College Park, Maryland, the company now operates at 12 plant locations across the country, with over 3000 employees.

No dividends have been paid on the stock.

This company has other acquisitions pending.

Marchant Calculators Incorp. is a pioneer in the development, manufacture and sales and servicing of calculating machines is striving to diversify operations and recently marketed an adding machine and company plans to add several new types of business machines.

Sales for the first 9 months of 1957 were $18,642,-283, net income after taxes $660,346, equal to $1.06 per share based on 622, 767 shares outstanding. This compares with the like period of 1956 when net sales were $18,753,414, net after taxes $1,287,809, equal to $2.19 per share based on 589,270 shares outstanding.

Dividends paid in 1957 have been 97½ cents in cash and 5% in stock.

The stock was listed on the New York Stock Exchange early in January 1957.

A substantial portion of income is derived from maintenance and service contracts. The company is doing considerable research on electronic digital computers, and this field offers promise over the long-term. While large development and moving expenses have reduced earnings sharply this year, recovery is possible in the coming year.

Alied Laboratories, Incorp. is engaged in the manufacture of biological and pharmaceutical products for both human and animal use. The company had broadened its position in human ethical drugs in recent years. Its main products in this field include Salk and flu vaccines, a topical anesthetic, and drugs fo rtreating dermatoses and diarrhea. The company's drugs for veterinary use include products for treating canine distemper, hog cholera and swine erysipelas. About 600 standard pharmaceutical items are manufactured, as well as about 130 biological products. Distribution is obtained directly from the company's plants through some 40 branches in this country. The company has a record of marked growth in (*Please turn to page* 426)

25 Companies Newly Listed on the N. Y. Stock Exchange

Company	Chief Business	Date Business Founded	1956 Earnings Per Share	1st. 9 Months — 1956 — Net Sales (Mil.)	1956 Net Per Share	1957 Net Sales (Mil.)	1957 Net Per Share	Indicated Div. Rate 1957	Recent Price	Div. Yield
Allied Laboratories	Salk, flu vaccines, drugs	1929	$3.97	$ 17.1	$3.10	$ 22.8	$4.24	$1.20[1]	48	2.5%
Consol. Electrodynamics	Measuring & control instru.	1935	1.35	16.2	.91	22.4	.55	.40	31	1.2
Delta Air Lines	Over 10,000 mile route	1930	4.70	17.3[2]	.43[2]	20.5[2]	.32[2]	1.20	17	7.0
Disney (Walt) Productions	Artistic productions	1938	2.01	n.a.	n.a.	23.4[3]	1.57[3]	.30[1]	13	2.3
Eastern Gas & Fuel Assoc.	Coal mining, shipper, utilities	1929	3.61	127.0	2.07	142.8	3.18	1.60[1]	28	5.7
Fluor Corp. Ltd.	Heavy construct., engineering	1912	1.03	83.0[4]	.48[4]	115.6[4]	2.78[4]	1.20[1]	18	6.6
Foote Mineral	Lithium & rare metals	1876	1.90	18.4	1.35	19.1	1.51	.80[1]	45	1.7
General Controls	Various industrial controls	1930	1.49	20.0	1.16	21.2	1.11	1.00	17	5.8
Gladding, McBean & Co.	Tile, ceramics & clay maker	1875	2.13	25.1	1.54	27.1	1.68	1.00	18	5.5
Ideal Cement	West, Pacific Coast, & South	1908	4.32	59.6	3.47	60.5	2.95	2.00	50	4.0
I-T-E Circuit Breaker	Elec. equip., radar, jet parts	1891	4.28	77.5	3.54	93.4	3.85	1.62½[1]	42	3.9
KLM Royal Dutch Airlines	Overseas Airline	1919	4.60	84.5	5.05	100.4	4.05	.79	26	3.0
Litton Industries	High-Powered tubes, electronics	1953	1.51	14.9[5]	.97[5]	27.9[5]	1.51[5]	....	41	....
Mallory (P. R.) & Co.	Elec. metallurgical products	1916	1.99	49.7	1.14	60.5	1.81	1.40[1]	30	4.6
Manning, Maxwell & Moore	Valves, gauges, hoists	1905	3.17	32.5	2.16	42.6	2.94	1.35	22	6.1
Marchant Calculators	Electric calculating machines	1913	3.27	18.7	2.19	18.6	1.06	1.30[1]	17	7.6
Polaroid Corp.	Picture-in-a-moment cameras	1937	.98	22.4	.63	30.5	.87	.20	47	.4
Revlon Inc.	Cosmetics	1932	3.15	61.3	2.24	69.4	2.48	1.60	27	5.9
Shell Transport & Trading	Part of Royal Dutch-Shell Combine	1897	2.46	n.a.	1.81	n.a.	2.29	.52	20	2.6
Smith Kline & French Labs.	Thorazine, Benzedrine, drugs	1841	3.90	77.8	3.01	85.3	3.21	2.20	68	3.2
Tishman Realty & Construct.	Real Estate Owners & Builders	1898	1.89	n.a.	1.89[6]	n.a.	2.38[6]	1.35[1]	18	7.5
United Artists	Distrib. for independent produc.	1919	3.84	n.a.	.97[7]	n.a.	1.17[7]	1.05	17	6.1
United Shoe Machinery	Largest shoe machine mfg.	1905	5.28	47.5[7]	2.85[7]	44.2[7]	2.10[7]	3.00	33	9.0
U. S. Borax & Chem.	No. 1 in borax; No. 2 in potash	1913	1.47	n.a.	n.a.	n.a.	1.03	.60	51	1.1
Wagner Electric	Electrical & auto equipment	1891	6.66	74.7	4.46	73.1	4.75	2.00[1]	36	5.5

n.a.—Not available.
1—Plus stock.
2—Quarter ended Sept. 30.
3—39 weeks ended 6-30-57.
4—9 months ended July 31.
5—Years ended 7-31-56 & 7-31-57.
6—Years ended 9-30-56 & 9-30-57.
7—6 months ended August 31.

FOR PROFIT AND INCOME

Speculation

Speculators have recently been able to profit handsomely in securities which comparatively few investors think of as issues suitable for speculation – namely, long-term U. S. Government bonds. On the one hand, the official shift to an easier-money policy guaranteed a substantial rise in these issues. On the other, it is possible for a customer with good credit standing to buy them from a dealer or through a bank loan on what amounts to a margin as low as 10%, compared with 75% if one buys stocks on margin through a brokerage firm. To illustrate, the longest-term Treasury bond (the 3's of 1955) rose in a comparatively few weeks from a 1957 low of 86.20 to a recent high of 96. Thus, a 10%-margin-buyer at the low had a gross profit at 96 of more than 100% on the money he put up. The issue at this writing is 94 bid. Of course, the easier-money policy leaves it conjectural how much further advance might come; but some is likely. The consensus of bond-market forecasters is that it may be 3 to 4 more points within the next several months. In any event, the bond trend figures to be upward, subject to intermittent technical reactions, for at least a considerable time to come. It will take signs of business revival, foreshadowing a later application of the credit brakes, to reverse it.

January Markets

The industrial average has already had a quite substantial rebound from its October low, weakening the technical basis for the "traditional year-end rise", which has amounted to more advance in most bull-trend years but to only a rally in bear markets. On a long-term average, the industrial list has made some January net gain in roughly two years out of three. There is nothing "seasonal" about that. It is about what the theoretical odds ought to be for almost any month, since bull markets have an average duration at least twice that of bear markets. When the basic market trend, as at present, is not bullish, January proves to be a disappointing month more often than not, with the best levels frequently seen very early in the month. That could be so in this instance.

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1957	1956
Allied Mills, Inc.	Quar. Sept. 30	$ .66	$ .43
Halliburton Oil Well Cement	Quar. Sept. 30	1.59	1.17
American Crystal Sugar	6 mos. Sept. 30	3.01	1.75
General Dynamics Corp.	9 mos. Sept. 30	3.50	2.51
McIntyre Porcupine Mines	Quar. Sept. 30	.84	.69
I-T-E Circuit Breaker	9 mos. Sept. 30	3.85	3.27
Brunswick-Balke-Collender	Quar. Sept. 30	2.47	1.74
Bristol-Myers Co.	Quar. Sept. 30	1.03	.85
Consolidated Cigar	Quar. Sept. 30	1.12	.77
Sterling Drug	Quar. Sept. 30	.64	.55

Strategy

Under any conditions—not alone when general market prospects are uncertain-to-dubious, as they are now—there is a proper place in many portfolios for some high-grade, defensive-type income stocks. The percentage of total funds that should be in them varies with the individual investor's circumstances and longer-range objectives. However, you should not confuse long-term objectives with medium-term strategy. It is not sound strategy to make any large-scale shift to income stocks on a temporary basis, with the idea of moving back later into more volatile stocks. The market decline, already well advanced, could bottom in no great time, whether in the 1958 first quarter or later. Funds that you may wish to put later into cyclical stocks or growth stocks should be kept liquid. Reserves for capital-gain opportunities should not be invested. They ought to be in a savings deposit, or in the case of larger sums, in short-term Treasury obligations, leaving you with full mobility.

Growth

Most Big-Name growth stocks have taken a beating because (1) growth of earnings has either slowed to a walk or been temporarily halted; and (2) it has been recognized that, around their earlier tops, price-earnings ratios were ridiculously high, dividend yields ridiculously low. But where there is still profit growth in special situations, plus possible "interesting" developments, buyers are still willing to rush in and give imagination a free rein, regardless of a high valuation. For instance, following recent listing on the Big Board, after a 4-for-1 split, Polaroid has run up in short order over 65% to around 50 at this writing. Based on first-half results, 1957 earnings might be in the vicinity of \$1.30-\$1.40 a share, against 98 cents last year. The dividend is a nominal five cents quarterly. Sales of the company's Polaroid-Land camera, which takes and develops a finished black-and-white picture in one minute, are going well. There could be bigger potentials in its similar short-cut to finished color slides. Therefore, unconfirmed reports that Eastman Kodak has been seeking to buy out Polaroid have further whetted speculative imaginations. Only insiders can know the real facts. In a situation like this we choose to sit on the fence and do no guessing.

Different

One of the few other market sensations so far in 1957 has been Lorillard, in which speculative possibilities were cited here recently. Now at a new all-time high above 33, it has more than doubled from this year's low. Unlike Polaroid, the facts are known, the stock is selling at less than six times present estimated annual-rate earning power around \$6 a share; and the yield on \$1.95 in dividends paid for 1957 is nearly 6%. The whole story here, as previously stated, is that the company was lucky enough to hit a jackpot with its Kent cigarettes. That was due mainly to a relatively favorable "rating" given to Kent's filter by a widely read magazine. Now above 65, Reynolds Tobacco "B", the outstanding investment-grade stock in the cigarette field, is close to its 1929 all-time high of 66. We continue to think that earnings and dividends should readily support a further rise, perhaps to the area 75-80, over a period of time. The other stocks in the group have edged up recently, but do not have comparable earnings trends, although a sizeable profit gain is indicated for American Tobacco.

Recession Immunity

Some industries in consumer goods or service fields have a high degree of immunity to relatively moderate general business recessions of the type now indicated, although many companies in them have other problems and risks. The stocks do not have equal immunity to market decline. Regardless of satisfactory earnings and dividends, they can be pulled down by general investment bearishness, and the great majority have been since last July. But, on the whole, they figure to fare better than the general market, and some can work higher. The principal recession-resistant industries are electric and gas utilities, confectionery, soft drinks, drugs, small-loan companies, baking, dairy products, food brands, food stores and tobaccos.

Problems

Where there is immunity to general recession and a favorable profit picture, the problem is that of the investor: namely, whether prices of the stocks are high enough, too high or reasonable. The drug group is an example. It has fared much better than the market, thereby subtracting from at least medium-term possibilities. None of the leading issues is cheap. In relation to present earnings, Parke, Davis and Warner-Lambert remain among the more reasonably priced. The favored food-store group is another example. These issues may go higher in time. We are not inclined to reach for them now. In the case of natural gas, which is largely used for space heating, variations in heating-season weather can make a monkey out of profit projections. So can official rate decisions in some instances. Earnings were cut in most cases this year by warm early-1957 weather. Given normal 1958 first-quarter and fourth-quarter weather, earnings should in most cases exceed 1957's. On the othar hand, consumption of soft drinks and earnings of companies in this field are substantially affected by variations in summer weather.

Pepsi-Cola

Sales of this company, second largest in its field, remain far smaller than those of Coca-Cola,

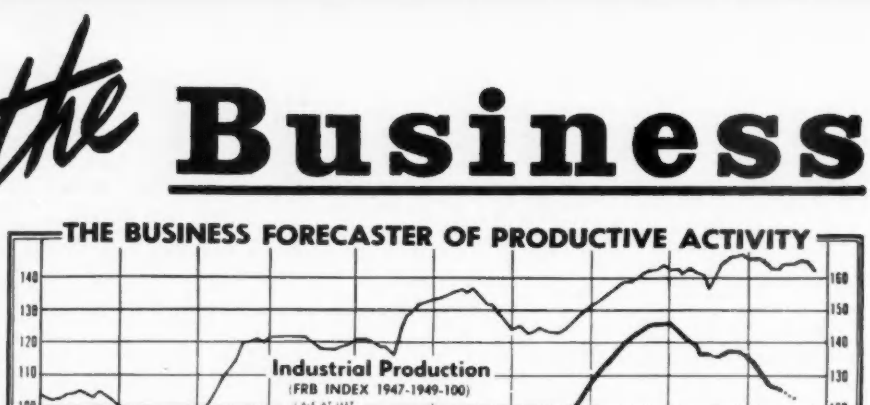
(*Please turn to page* 428)

DECREASES SHOWN IN RECENT EARNINGS REPORTS

		1957	1956
American inc, Lead & Smelt.	Quar. Sept. 30	\$ .01	\$ .58
Crane Co.	Quar. Sept. 30	.86	1.10
American Radiator & S. S.	Quar. Sept. 30	.25	.43
Consol. Electrodynamics	9 mos. Sept. 30	.55	.91
Phelps Dodge Corp.	Quar. Sept. 30	.84	1.74
General Portland Cement	Quar. Sept. 30	.51	1.17
Manhattan Shirt Co.	Quar. Sept. 28	.17	.33
Oxford Paper Co.	Quar. Sept. 30	.68	1.05
Fairbanks, Morse & Co.	Quar. Sept. 30	.39	.78
Rome Cable Corp.	Quar. Sept. 30	.63	1.21

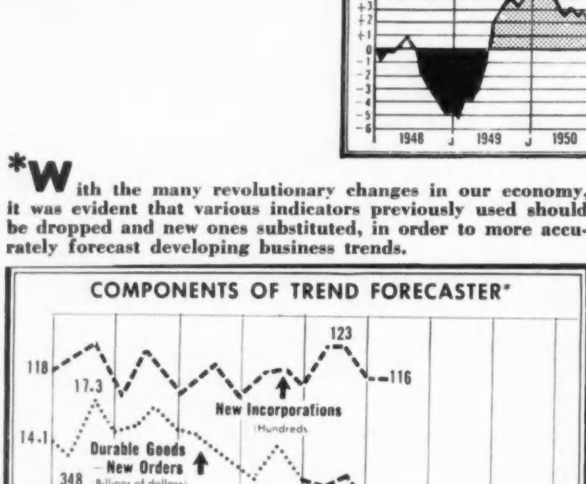
the Business

Business Trend Forecaster*



***W**ith the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.**

COMPONENTS OF TREND FORECASTER*



(*)—Seasonally adjusted except stock and commodity prices.
(a)—3 month moving average.

This we have done in our new *Trend Forecaster* (developed over a period of several years), which employs those indicators (see Components of Trend Forecaster) that we have found to most accurately project the business outlook.

When the *Forecaster* changes its direction up or down a corresponding change in our economy may be expected several months later.

The depth or height of the developing trend is clearly presented in our *Relative Strength Measurement* line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a strong advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side usually precedes an important contraction in our economy.

We believe that subscribers will find our Business Trend Forecaster of increasing usefulness both from the investment and business standpoints.

Current Indications of the Forecaster

Recent figures on the components of the **Trend Forecaster** continue to uncover elements of weakness. Both raw industrial commodity prices and stock prices were lower again, approaching the year-end. New orders for durable goods dipped further in October, continuing the steady regression that has lasted for almost a year. Nonresidential construction contract awards improved slightly in early Fall, but not enough to reverse the longer term downtrend. No new figures are available on the other components of the forecaster, since our previous roundup. However, as we pointed out in our last issue, the longer term trends of currently stable indicators are rather precarious and can easily turn downward. This includes housing starts, new incorporations and the inverted series on business failure liabilities.

With the components of the **Forecaster** still preponderately moving lower, the **Relative Strength Measurement** is close to the minus 3 level and the Trend Forecaster continues to decline. The indicators thus continue to signify further business weakness, extending at least through the Winter and into early Spring.

Analyst

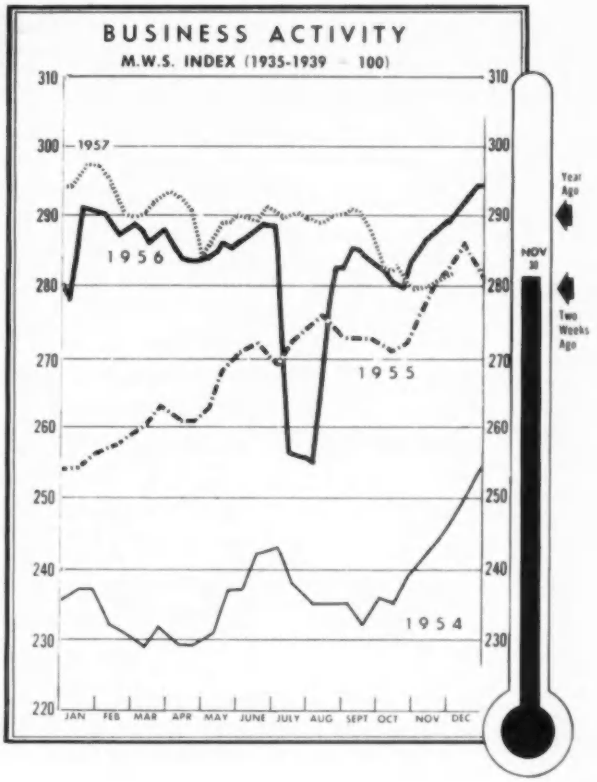
CONCLUSIONS IN BRIEF

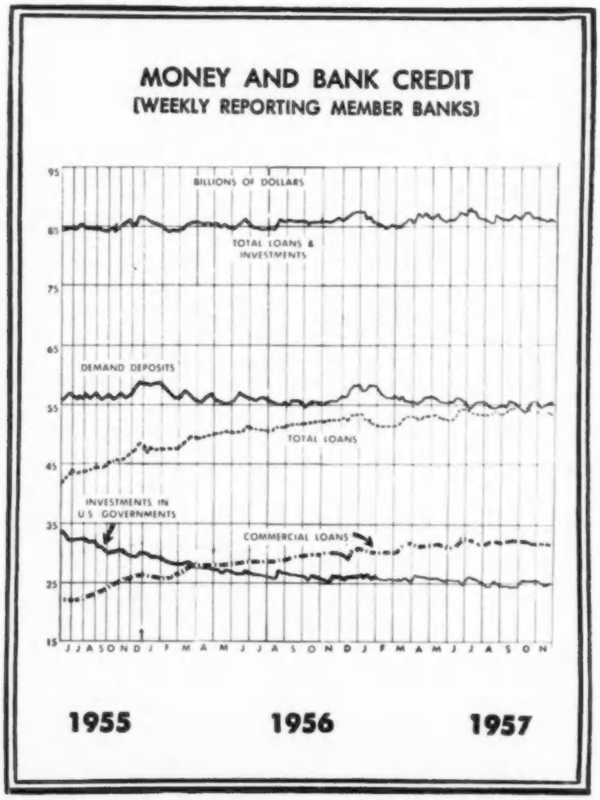
INDUSTRY — The October dip in output and shipments was accompanied by a downturn in inventories. The National Association of Purchasing Agents reports some further weakening in production and incoming orders in November. Downtrend in these areas and further inventory liquidation should continue as we enter the New Year.

TRADE — Disappointing retail sales in early December compounded by New York City transit strike. Expect last minute buying rush, but December physical volume of sales should lag behind year ago.

MONEY — Bond prices spurted further in late November and early December but signs of approaching stability are beginning to appear. Outlook: Possible near-term irregularity to be followed by further gains as credit demands subside.

COMMODITIES — Wholesale prices achieve unusual stability as BLS's broad price index remains unchanged for four consecutive weeks, at levels slightly below the September peak. Some price easing likely after Christmas demand is filled.





The economic diagnosticians are searching hard these days for clues to the probable extent and duration of the current downturn. Although the malady is still too young for exact prognosis, some analysts are already offering confident predictions of its precise future course, basing their conclusions in many cases, on misleading surface resemblances that are common to all recessions. Certainly those who claim to find comforting parallels between the current downturn and the set-back of 1953-1954 are doomed to disappointment, for the outstanding fact about the two periods is their fundamental dissimilarity. The earlier contraction was the direct result of massive reductions in government outlays for armaments while the current downturn stems from a more serious weakness in the civilian economy.

It was the sharp cut in defense spending after the Korean armistice of mid-1953 that started that recession rolling. National security outlays fell by $13.8 billion from mid-1953 to the end of 1954 and total Federal spending was similarly curtailed. The impact of these reductions spread to every sector of a private enterprise which had been buoyed by defense activity, resulting in a general downturn. The contraction was mild however, with still unsatisfied post-war needs being bolstered by tax cuts.

Conditions are certainly different today. Perhaps the firmest sector of activity at present is defense, where increased outlays are being pressed even more strongly by the opposition than by the Administration. At the same time, it is the civilian sector which has been faltering, after

(Please turn to following page)

Essential Statistics

THE MONTHLY TREND	Unit	Month	Latest Month	Previous Month	Year Ago
INDUSTRIAL PRODUCTION* (FRB)	1947-'9-100	Oct.	142	144	146
Durable Goods Mfr.	1947-'9-100	Oct.	155	159	163
Nondurable Goods Mfr.	1947-'9-100	Oct.	132	132	131
Mining	1947-'9-100	Oct.	127	128	131
RETAIL SALES*	$ Billions	Oct.	16.6	16.9	15.9
Durable Goods	$ Billions	Oct.	5.6	5.7	5.4
Nondurable Goods	$ Billions	Oct.	10.9	11.2	10.5
Dep't Store Sales	1947-'9-100	Oct.	121	128	122
MANUFACTURERS'					
New Orders—Total*	$ Billions	Oct.	26.3	26.6	28.8
Durable Goods	$ Billions	Oct.	12.4	12.5	14.3
Nondurable Goods	$ Billions	Oct.	13.9	14.1	14.5
Shipments*	$ Billions	Oct.	28.0	28.2	28.7
Durable Goods	$ Billions	Oct.	13.9	14.1	14.4
Nondurable Goods	$ Billions	Oct.	14.1	14.1	14.3
BUSINESS INVENTORIES, END MO.*	$ Billions	Oct.	91.0	91.3	87.8
Manufacturers'	$ Billions	Oct.	54.1	54.2	51.8
Wholesalers'	$ Billions	Oct.	12.8	12.8	12.7
Retailers'	$ Billions	Oct.	24.2	24.4	23.3
Dept. Store Stocks	1947-'9-100	Oct.	143	143	142
CONSTRUCTION TOTAL	$ Billions	Nov.	4.1	4.5	4.0
Private	$ Billions	Nov.	3.0	3.1	2.9
Residential	$ Billions	Nov.	1.5	1.5	1.5
All Other	$ Billions	Nov.	1.5	1.6	1.4
Housing Starts*—a	Thousands	Oct.	1,000	990	1,195
Contract Awards, Residential—b	$ Millions	Oct.	1,165	1,151	1,050
All Other—b	$ Millions	Oct.	1,448	1,474	1,393
EMPLOYMENT					
Total Civilian	Millions	Oct.	66.0	65.7	66.0
Non-Farm	Millions	Oct.	53.1	53.1	53.0
Government	Millions	Oct.	7.5	7.4	7.3
Trade	Millions	Oct.	11.7	11.6	11.5
Factory	Millions	Oct.	12.9	13.0	13.5
Hours Worked	Hours	Oct.	39.5	40.0	40.7
Hourly Earnings	Dollars	Oct.	2.08	2.08	2.02
Weekly Earnings	Dollars	Oct.	82.16	83.20	82.21
PERSONAL INCOME*	$ Billions	Oct.	346	347	334
Wages & Salaries	$ Billions	Oct.	240	242	232
Proprietors' Incomes	$ Billions	Oct.	51	51	51
Interest & Dividends	$ Billions	Oct.	32	32	30
Transfer Payments	$ Billions	Oct.	22	21	19
Farm Income	$ Billions	Oct.	15	15	16
CONSUMER PRICES	1947-'9-100	Oct.	121.1	121.1	117.7
Food	1947-'9-100	Oct.	116.4	117.0	113.1
Clothing	1947-'9-100	Oct.	107.7	107.3	106.8
Housing	1947-'9-100	Oct.	126.6	126.3	122.8
MONEY & CREDIT					
All Demand Deposits*	$ Billions	Oct.	106.5	106.2	106.7
Bank Debits*—g	$ Billions	Oct.	81.7	81.3	79.0
Business Loans Outstanding—c	$ Billions	Oct.	31.8	32.4	29.9
Instalment Credit Extended*	$ Billions	Oct.	3.5	3.6	3.4
Instalment Credit Repaid*	$ Billions	Oct.	3.3	3.4	3.2
FEDERAL GOVERNMENT					
Budget Receipts	$ Billions	Oct.	3.1	7.2	3.2
Budget Expenditures	$ Billions	Oct.	6.5	5.7	6.0
Defense Expenditures	$ Billions	Oct.	3.6	3.4	3.7
Surplus (Def) cum from 7/1	$ Billions	Oct.	(5.9)	(2.5)	(4.5)

PRESENT POSITION AND OUTLOOK

a long upswing. The present weakness was first observable in such sectors of demand as housing and consumer durables. Over-expansion has now beset us in many fields and our productive capacity has far out-raced the normal gradual growth in final demand. All down the line, post-war shortages have been eliminated and over-abundance is the rule, in strking contrast with four years ago when housing shortages were still troublesome and the consumer was hungry for new cars and other durables. The change between the two periods is further accentuated by the rise in debt in the four years. Consumer credit has risen by $14 billion since mid-1953 and residential mortgage debt is more than $40 billion higher. The repayment burden has become a serious obstacle to any important near-term expansion in consumer demand.

The civilian economy has now entered a period of widespread redjustment, after reaching the over-expanded phase that has been characteristic of previous post-war peaks. However, the situation today differs from other such periods, because of built-in stabilizers and the need of greater defense spending to counter the Communist threat. As of now, these two elements of strength are not potent enough to counterbalance the contractive forces, but they should moderate their effects to an important degree.

* * *

NO PEP IN NEW ORDERS—Manufacturers continue to look in vain for some improvement in incoming orders. This vital indicator fell to $26.3 billion in October, on a seasonally adjusted basis, down from a revised $26.6 billion the previous month. New orders for durable goods were down $100 million; non-durables suffered a $200 million reduction. Shipments fell too, but were still $1.5 billion ahead of new orders. As a result, order backlogs continued to slide off rapidly, dipping to $53.4 billion, or $9.4 billion under a year ago. **Weakness in new orders, lower backlogs and the drive to cut inventories all add up to lower production ahead.**

* * *

FALLING FOREIGN TRADE—The export boom, which was an inflationary factor early this year, has subsided greatly in recent months. Exports reached a record $25.8 billion annual rate in March, 1957, as the result of the huge, but temporary, demand for our oil following the closing of the Suez Canal. In October, they were down to a $20 billion a year rate and

and Trends

QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

In Billions of Dollars—Seasonally Adjusted, at Annual Rates

SERIES	1957 III Quarter	1957 II Quarter	1957 Quarter	1956 III Quarter
GROSS NATIONAL PRODUCT	439.0(e)	434.3	429.1	416.7
Personal Consumption	283.2(e)	278.9	276.7	268.6
Private Domestic Invest.	65.5(e)	65.0	62.7	65.5
Net Foreign Investment	3.2(e)	3.5	4.1	2.0
Government Purchases	87.2(e)	86.9	85.6	80.6
Federal	50.8(e)	51.1	50.3	47.2
State & Local	36.4(e)	35.8	35.3	33.0
PERSONAL INCOME	346.5(e)	342.4	337.7	328.7
Tax & Nontax Payments	43.5(e)	42.9	42.2	39.8
Disposable Income	303.0(e)	299.5	295.5	288.8
Consumption Expenditures	283.2(e)	278.9	276.7	268.6
Personal Saving—d	19.8(e)	20.6	18.9	20.3
CORPORATE PRE-TAX PROFITS*		42.0	43.9	40.8
Corporate Taxes		27.4	22.4	20.8
Corporate Net Profit		20.5	21.5	20.0
Dividend Payments		12.5	12.1	12.1
Retained Earnings		8.0	9.1	7.9
PLANT & EQUIPMENT OUTLAYS	37.2(e)	37.0	36.9	35.9

THE WEEKLY TREND

	Unit	Week Ending	Latest Week	Previous Week	Year Ago
MWS Business Activity Index*	1935-'9-100	Nov. 30	282.3	281.4	289.2
MWS Index—per capita*	1935-'9-100	Nov. 30	213.0	212.3	222.7
Steel Production	% of Capacity	Dec. 7	72.0	72.1	101.3
Auto and Truck Production	Thousands	Dec. 7	172	142	202
Paperboard Production	Thousand Tons	Nov. 30	269	296	252
Paperboard New Orders	Thousand Tons	Nov. 30	238	251	287
Electric Power Output*	1947-'49-100	Nov. 30	225.7	227.1	224.9
Freight Carloadings	Thousand Cars	Nov. 30	554	633	752
Engineering Constr. Awards	$ Millions	Nov. 27	379	332	377
Department Store Sales	1947-'9-100	Nov. 30	158	155	196
Demand Deposits—c	$ Billions	Nov. 27	55.4	55.1	56.6
Business Failures	Number	Nov. 30	235	308	254

PRESENT POSITION AND OUTLOOK

further decline is expected. A wide variety of factors are operating to pull them lower, including larger foreign crops, which reduce the need of our produce, the cuts in our foreign aid programs, weakening of the European business boom and a shortage of foreign gold and dollar reserves.

* * *

OUTLOOK FOR HOMEBUILDING—Outlays for residential building have firmed nicely in recent months. In November of this year, spending for this purpose stood at a seasonally adjusted $17.1 billion, up from the year's low of $15.9 billion, reached in May. The recent improvement in housing activity plus prospects of easier real estate credit, have awakened hopes that this sector will help to bolster the economy in coming months.

Fundamentally, however, the picture is not as bright as it appears. The upturn has been mainly due to short term influences while longer term forces are still unfavorable. These include the low rate of new family formations, which will be around 700,000 this year as against 1,100,000 in 1956. No improvement in this vital statistic is expected until about 1960. Lower employment next year will also adversely affect expenditures for new homes. **In these circumstances, demand for new housing will do well if it can merely hold at current levels.**

*—Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge unadjusted data. (c)—Weekly reporting member banks. (d) Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. (na)—Not available. (r)—Revised. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

No. of Issues (1925 Cl.—100)	1957 Range High	1957 Range Low	1957 Nov. 29	1957 Dec. 6
300 Combined Average	346.6	279.6	287.8	283.2
4 Agricultural Implements	282.4	195.5	203.6	195.5L
3 Air Cond. ('53 Cl.—100)	122.8	82.7	88.4	87.2
9 Aircraft ('27 Cl.—100)	1388.8	882.6	1067.6	1039.2
7 Airlines ('27 Cl.—100)	1022.5	581.5	641.6	621.6
4 Aluminum ('53 Cl.—100)	464.5	274.5	287.2	274.5
6 Amusements	172.6	122.0	128.0	122.0L
9 Automobile Accessories	384.4	309.6	320.3	309.6
6 Automobiles	54.3	40.5	41.9	42.4
4 Baking ('26 Cl.—100)	29.7	26.3	28.4	28.4
3 Business Machines	1285.3	884.3	966.5	935.6
6 Chemicals	652.3	496.7	538.6	532.6
4 Coal Mining	25.1	16.8	18.7	18.0
4 Communications	106.0	83.1	86.0	87.9
9 Construction	126.8	100.7	106.9	104.4
7 Containers	799.9	656.5	686.7	679.1
7 Copper Mining	307.6	185.8	194.9	194.9
2 Dairy Products	113.4	103.8	113.4	113.4
6 Department Stores	89.2	78.4	80.9	80.1
5 Drugs-Eth. ('53 Cl.—100)	259.2	175.2	242.7	239.1
6 Elec. Eqp. ('53 Cl.—100)	244.4	187.8	203.7	201.4
2 Finance Companies	584.5	525.0	563.0	563.0
6 Food Brands	280.2	239.8	250.5	250.5
3 Food Stores	183.9	153.8	180.6	183.9

(Nov. 14, 1936 Cl.—100)	1957 Range High	1957 Range Low	1957 Nov. 29	1957 Dec. 6
100 High Priced Stocks	236.9	191.7	197.1	194.4
100 Low Priced Stocks	415.9	321.8	331.4	324.8
4 Gold Mining	726.2	548.0	561.2	548.0L
4 Investment Trusts	184.5	142.4	148.9	145.6
3 Liquor ('27 Cl.—100)	1094.5	855.7	905.5	895.5
9 Machinery	523.4	364.3	374.6	364.3
3 Mail Order	174.6	142.1	145.5	140.4
4 Meat Packing	142.6	103.5	114.6	111.8
5 Metal Fabr. ('53 Cl.—100)	198.3	146.8	150.6	152.6
10 Metals, Miscellaneous	420.9	287.3	299.5	287.3L
4 Paper	1060.1	789.9	862.6	883.4
22 Petroleum	914.4	667.3	708.5	692.0
21 Public Utilities	263.6	236.5	246.4	248.9
7 Railroad Equipment	91.4	62.6	63.5	62.6
20 Railroads	72.7	42.4	45.2	42.4L
3 Soft Drinks	509.8	432.7	454.1	445.5
12 Steel & Iron	393.0	259.4	271.2	259.4L
4 Sugar	116.9	96.9	98.8	100.7
2 Sulphur	926.7	521.2	546.4	521.2L
11 Television ('27 Cl.—100)	36.0	27.2	30.2	29.6
5 Textiles	149.9	102.3	112.1	107.9
3 Tires & Rubber	197.6	154.7	162.2	167.8
5 Tobacco	110.9	87.0	104.9	110.9H
2 Variety Stores	298.8	232.4	232.4	232.4
15 Unclassif'd ('49 Cl.—100)	168.9	140.2	144.8	141.8

H—New High for 1957. L—New Low for 1957.

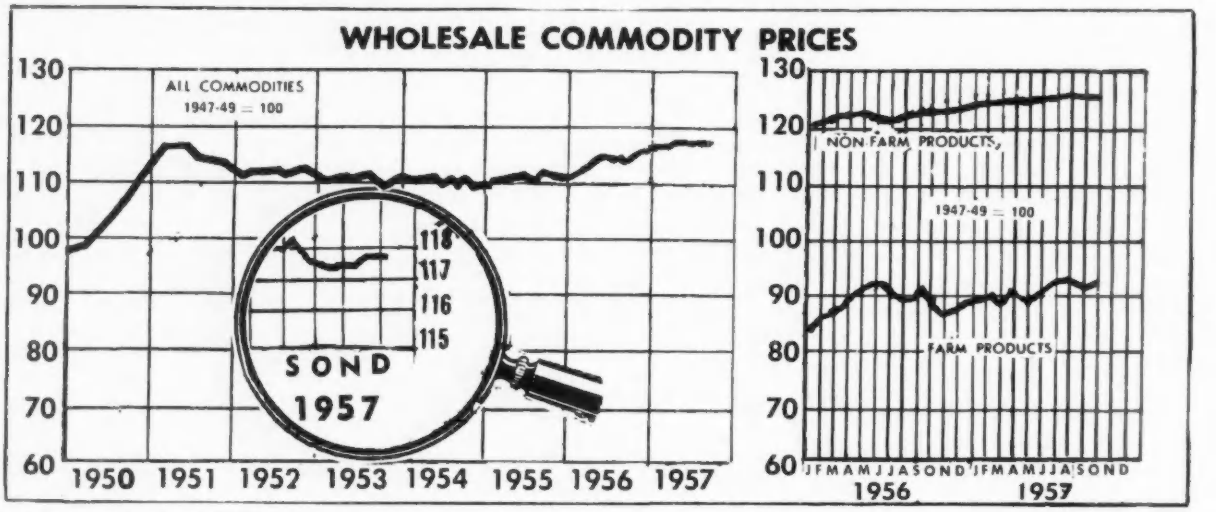
Trend of Commodities

SPOT MARKETS—The major components of the Bureau of Labor Statistics' index of 22 sensitive commodities again followed divergent trends in the two weeks ending December 6. The over-all index rose 0.6% during the period as the result of another gain in food prices, amounting to 1.2%. At the same time, raw industrial materials remained unchanged. In the latter category, textiles and fibers were weak, giving up 1.8%. Metals improved slightly, with a gain of 0.2%.

The broad spectrum of wholesale commodity prices have remained in an essentially sidewise trend since mid-Summer. For the past four weeks, the BLS' comprehensive index has actually held unchanged. However, liquidation of business inventories (which began in earnest in October), and post-Christmas sales should make for easier prices early next year.

FUTURES MARKETS—The futures markets were mixed again the two weeks ending December 6. In fact, in several cases there were divergent trends among different options for the same commodity. This was true of wheat, corn and cotton. The Dow-Jones Commodity Futures Index was virtually unchanged for the period under review, closing at 162.57, up 0.01 point.

Near-term wheat futures were slightly higher in the two weeks ending December 6, the March option advancing ½ cent. At the same time, 1958 crop futures were somewhat lower. For the longer term, old crop futures remain near their highs while new crop prices have been sagging. This is accounted for by the higher support prices for the 1957 crop. However, larger foreign crops this year may offer competition to our wheat in coming months.



BLS PRICE INDEXES 1947-49—100	Date	Latest Date	2 Wks. Ago	1 Yr. Ago	Dec. 6 1941
All Commodities	Dec. 3	117.8	117.8	116.3	60.2
Farm Products	Dec. 3	91.4	92.2	83.9	5.10
Non-Farm Products	Dec. 3	125.8	125.6	124.7	67.0
22 Basic Commodities	Dec. 6	84.9	84.5	93.5	53.0
9 Foods	Dec. 6	85.6	84.6	83.4	46.5
13 Raw Ind'l. Materials	Dec. 6	84.3	84.3	101.0	58.3
5 Metals	Dec. 6	87.9	87.6	126.8	54.6
4 Textiles	Dec. 6	78.2	79.7	85.4	56.3

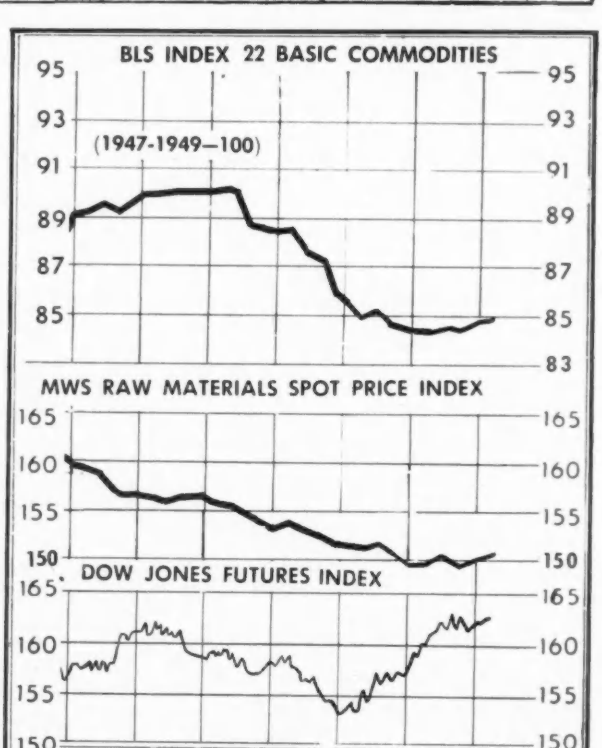
MWS SPOT PRICE INDEX
14 RAW MATERIALS
1923-1925 AVERAGE—100

AUG. 26, 1939—63.0 Dec. 6, 1941—85.0

	1957	1956	1953	1951	1945	1941
High of Year	166.3	169.8	162.2	215.4	98.9	85.7
Low of Year	149.5	163.1	147.9	176.4	96.7	74.3
Close of Year		165.5	152.1	180.8	98.5	83.5

DOW-JONES FUTURES INDEX
12 COMMODITIES
AVERAGE 1924-1926—100

	1957	1956	1953	1951	1945	1941
High of Year	163.4	166.7	166.5	214.5	106.4	84.6
Low of Year	153.8	163.1	147.9	176.4	96.7	74.3
Close of Year		162.7	166.8	189.4	105.9	84.1



Companies Adjusting Their Profit Sights to 1958 Realities

(*Continued from page* 407)

Chrysler, getting the benefit of the "new look" should report earnings of close to $15 a share compared with $2.29 a share. GM's net should be below the $3.01 of 1956 and Ford's $4.38 of last year should be increased by about a dollar. Predictions of 1958 volume have been highly conservative, although G.M. confidently expects a banner year.

Farm equipment business this year has been depressed by lower farm income and drought in some of the western farm states. International Harvester somewhat more diversified than others in this field, (also producing motor trucks and construction equipment) had expected to show improvement in 1957. However, for nine months a 26 per cent drop in building equipment sales a 2.6 per cent decline in motor truck sales and a 7.5 per cent slide in farm implement output resulted in a 6.7 per cent drop in net income—$1.95 a share compared with $2.18. It is the expectation of management however, that the trend of business in the final quarter and into 1958 will be upward.

Airlines—Profits Still on Downgrade

Airline revenues continue to climb but narrower profit margins resulted in generally lower nine month earnings. Eastern Airlines as an example showed a 16 per cent gain in operating revenues and a 38 per cent decline in net income. It is expected that net income for 1957 will be 40 to 50 per cent below the $5.17 a share of 1956.

Industry forecasts of 1958 performance are heavily hedged, depending on the government's action on rate increases.

Rubber Forecasts Have Stood Up

Earnings of Rubber shares should hold up well compared with other groups. Firestone, Goodyear and Goodrich all should equal or exceed last year's earnings. The 1956 annual report of Firestone was optimistic on the outlook for sales and profits and a recent forecast of earnings by the chairman indicates that for the year ended October 31, earnings probably exceeded the $7.43 of the previous twelve months. In 1958, most industry leaders look for another good year.

Aircrafts in Defense Strategy Cross-Fire

The stretchout in the aviation industry will affect profits of most companies in the group but some concerns will show greater earnings this year than in 1956. However, the 1958 outlook is clouded in light of radical shifts in our entire defense strategy. **Lockheed's** president Robert E. Gross before the New York Society of Security Analysts in July stated that earnings for his company could run from $12 to $17 million. The latter figure now appears to be the minimum attainable. This would amount to about $5.70 a share and compare with the $15.07 million and $5.10 a share of 1955.

Rail Equipments

In the rail equipment field most earlier optimistic forecasts have not been confirmed. Officials of **Poor & Co.** which had earned a shade over $2.00 in the first half of 1956 and $2.15 in 1957 expected a "good" third quarter but the general business decline at the end of the period affected shipments and net dropped to 48 cents for the quarter. **Pullman & Co.**, in the same industry but diversified (M. W. Kellogg–Trailmobile) likely will fulfill earlier forecasts of a good year as net income rose 18 per cent to $4.98 a share for nine months compared with $4.23 in the like 1956 period. A non recurring profit of 58 cents a share from the sale of real-estate aided in the showing.

Conclusion

All in all, and quite understandably, industry generally faces 1958 with considerably less optimism than a year earlier. Yet a glance at the list of accompanying companies who have raised their sights for early 1958 is indicated that once again the business picture will be highly mixed. The overall trend may be moderately downward, but individual industries, and specially equipped companies may still continue to fare well. END

Camera Companies Benefiting from Double Exposure

(*Continued from page* 410)

scoring the performance of guided missiles. This unit is shaped like a missile and contains four high-speed 16mm. motion picture cameras aimed to cover the flight path of an intercepting missile when it is mounted on the wing tips of drone targets. When the drone is hit, the unit is automaticaly released and parachuted to earth with its valuable photographic records intact. This unit is representative of the optical, mechanical, and electronic work done on military projects by the company.

Although *Bell & Howell's* business is extremely sensitive to fluctuations in the general economy, its industry position is secure.

Fairchild Camera & Instrument Corp. is a prominent medium sized company in the electronic and photographic fields. The company's products fall into three major categories; military products, including aerial cameras, complete reconnaissance systems and electronic devices; products and services for industry such as electronic engraving machines, motion analysis cameras, X-ray cameras, oscilloscope cameras, and aerial surveys; and electronic components such as potentiometers and the like. Recently the company has further broadened this category by entering the semi-conductor, or transistor field.

At the moment *Fairchild* is experiencing a definite reversal in the trend of earnings which had occurred prior to the second quarter of this year. This can be basically attributed to the installing of new top management and improvement of the company's product lines. Net sales and machine rentals were $28 million for the first nine months of 1957 compared to $29 million for the same period in 1956 which includes non-recurring items. The 1957 earnings figure is based solely on operations with no non-recurring profits. Backlogs booked amounted to $25 million in the first nine months compared to $21 million in the like period in 1956.

It is possible that *Fairchild* will emerge as the acknowleged leader in the field of reconnaissance systems. The granting of the contracts to develope the reconnaissance systems for the B-58, the world's first supersonic bomber bears mute testimony of the regard the military has in *Fairchild's* reconnaissance research and development. It seems that any increase in the production to come for the B-58 bomber will be acompanied by similar increases in reconnaissance systems which will benefit this company.

As an indication of "things to come", it should be noted that three years before "Sputnik 1" began its global orbit, a *Fairchild* camera rode a Navy Viking rocket 158 miles into space to make the highest photographs ever taken of the earth. Today, *Fairchild* engineers are engaged in advanced studies of reconnaissance instrumentation for missiles and satellites, involving infra-red, radar and applications of optics and television in entirely different forms from those with which we are familiar today. Indeed the aerial camera as we know it is ready for the Smithsonian Institute.

Another recent development which has attracted widespread attention in the field of industrial photography is *Fairchild's* Mini-Rapid processor. This enables movie film to be developed in less than 20 minutes after shooting; scientists thus may make on-the-spot evaluations of work they have photographed.

With an excellent research and development organization and new keen management, *Fairchild Camera* seems capable of showing improvement in the years ahead. The company is branching out into other related fields and will show a sharp improvement in net for the last quarter of the year and continuing into the new year.

Polaroid Corp. with its spectacular picture-in-a-minute Land camera is the bright spot in the another-wise hectic still picture photographic field, which has been plagues by intense competition. The company is maintaining the pace of an extraordinary growth company with a 75% increase in sales volume for 1957 as well as 1956 without introducing any important new products. Sales for 1957 are estimated in excess of $47 million up about 35% in the year and over seven times the sales of 1949. Profit margins have more than doubled from 11.5% to around 24% since 1949.

The Land cameras and films with their unique characteristics of practically instantaneous picture development are well supported by strong world-wide patents and intensive research and development of newly patented improvements and refinements which should continue to keep this portion of the camera field uniquely *Polaroid's*.

For early 1958, the company plans to introduce the Polaroid Print-Copier, a device that will enable the making of copies of *Polaroid* prints immediately which will sell at a price designed to attract the average Land camera owner. New and improved film, and it may be noted here that only *Polaroid* film is available for *Polaroid* Land cameras, have been introduced on a progressive basis. Sharply improved film, including ASA speeds of several thousands or higher, will be scheduled to be introduced in 1958 virtually eliminating the need for flash under ordinary indoor lighting conditions. Color film has been developed to a point where most of the obstacles appear to be surmounted and it would not be surprising to see it appear in a few years.

The major objection to this company is its reliance on essentially one product. That this contention may be rebutted by the vast potential of such a market which will find the company in a powerful position with its advance research and public acceptance even if competition materializes, does not reduce the vulnerability of the company's dependence upon "one product". However, *Polaroid* is unmistakeably a company of considerable merit and is in a position to continue its substantial progress.

Sylvania Electric through its acquisition of Argus is also a major force in the field of still photography. Argus has grown to become one of the leading manufacturers of 35mm. cameras and color-slide projection equipment. Other principal products include reflex-type cameras, auxiliary lenses, and many other camera and projector accessories.

Sylvania is otherwise, an important manufacturer of electronic tubes, fluorescent and in-

candescent lamps, television sets and military electronic items.

The photographic field holds much promise for improvement in the years ahead for the manufacturers of photographic equipment. New developments, favorable economic trends, and futuristic uses all appear to be credit factors for the industry in the ledger. On the debit side are economic fluctuations and increasing competition. All in all, the photographic industry should fare more favorably than many in the periods ahead. —END

As the Sands of the Sahara Desert Yield Black Gold

(*Continued from page* 401)

companies have on the foreign policies of their own countries to drum up support for France's Algerian policy. Whether the American, British or Dutch companies will lend themselves to this plan is another question.

But even if they do not, France's partnership with the foreign oil concerns will at least prevent these concerns from entering into clandestine negotiations with the Algerian rebels who have issued a number of statements to the effect that they do not recognize any concession agreements made by France and will make their own agreements once they become masters of Algeria. Obviously, these statements are designed to have the oil companies take up direct contact with the rebels now in order to assure themselves of the perpetuity of their concessions before making any investments. So far, there is no indication that any foreign oil company has done so. However, a recent statement by the head of the Italian government oil trust ENI, to the effect that his concern would be ready to participate in a combined oil exploration effort of Algeria and Tunisia has received some sympathetic consideration from Algerian rebel leaders but was cold shouldered in Paris because it puts Algeria on the same level as the two former French possessions in North Africa who received their independence less than two years ago. Thus, the foreign oil companies as well as the big French banking houses and investment companies going into the Sahara are likely to find themselves soon in the middle of an increasingly bitter struggle. The recent rebel attack on a geological survey party of the Shell-controlled CPA causing the death of 11 persons, may well have been only the beginning of a series of attempts to prevent France from reaping the benefits of its investments in money, manpower and mind in the Sahara. For this is the official intent of the Algerian rebels who would like to make Saharan oil the same kind of political weapon which Arabian oil has become in the hands of some Middle East governments.

Oil Company Stake Appears Secure Despite Power Struggle

Yet the Algerian struggle will most likely be resolved one way or the other within the next two or three years. This will be just about the time when the first large-scale oil shipments will begin to flow to France. It may be assumed that, no matter what the outcome, the major outlet for Saharan oil will be France, though some of it may also go to Italy as well as the United States, since it is not only qualitatively ideally suited for our purposes but could also be delivered here at about half the transportation cost of Persian Gulf Oil.

But all of this would require the continued presence of Western oil companies in Algeria without which Saharan oil could be neither produced, nor transported, nor marketed in substantial quantities. Thus, even a fully independent Algeria would be unlikely to interfere drastically with established private oil operations. It would have no political reason to do so, since its leaders are basically anti-communist and pro-Western, and it would have no economic reason, since the royalties from oil production might by then well be the country's major income source.

In the long run the oil prospects are thus definitely on the positive side for both France and Algeria and also for the oil companies whose geologists are now braving the most incredible climatic conditions in order to find more of the stuff which will provide undreamt wealth for one of the world's most desolate areas, while at the same time giving a major boost to the French economy and yielding seizable profits for the companies financing the development. —END

The Rise and Fall in Commodity Prices

(*Continued from page* 389)

new family formations was given additional stimulus from a considerable lowering of the marriage age for both young men and young women. These young couples began to have their babies at an earlier age than their older brothers and sisters, many of whom had seen service during the war.

The marriage rate has been tapering off for several years. The impetus stemming from the return of war veterans plus the later lowering of the marriage age can definitely be regarded as non-repetitive. It is virtually inconceivable that the marriage age can be lowered further.

The next fresh burst in marriages and new family formations is not expected to occur until the 1960s.

The annual "baby crop" still is increasing, but the rate is tending to slow down. There appears to be somewhat of a deterrent to parenthood from the "discovery" that the cost of upkeep for older children is rising rapidly and far exceeds the cost of upkeep for younger children. This is hitting the earlier postwar trend towards larger families.

Capital Expenditures

Business men here and abroad, acting in the belief that the numerous postwar non-repetitive stimuli to business and to prices represented permanent new trends, embarked on a tremendous program for expansion of new plant and equipment.

These increases in capital expenditures resulted in additional stimuli to prices, particularly in construction materials and in machinery.

Estimated capital and equipment expenditures in the United States for 1957 are estimated at some 30 percent larger than in 1955. This increase of approximately $8.5 billion in business spending from 1955 to 1957 undoubtedly was a major factor in the fresh upturn in the general price level from 1955 until mid-1957. It may or may not be a coincidence that the price rise peaked out at about the same time that capital spending began to level off.

Business spending is scheduled to be smaller in 1958 than in 1957. Recent estimates are for a total reduction of no more than 10 percent, but this may be larger if general business continues downward.

A number of industries rather recently have come to the conclusion that, through overestimating probable demand, they have overexpanded, and that some years may elapse before demand increases sufficiently to catch up with current productive capacity.

No More Shortages

Now that the numerous non-repetitive increments to demand have spent their force, or largely so, and now that production and the capacity for production of materials and goods have been so greatly increased, it is becoming apparent that there are no more shortages of goods.

The National Association of Purchasing Agents, in its recent monthly report, stated that its members had reported no materials – not even nickel – in short supply.

Supplies of numerous materials, especially the extremely important nonferrous metals, are in large if not burdensome supply with prices under pressure.

Consumers Hit by "Service" Costs

During the earlier postwar years, consumers were able to devote an unusually large percentage of their incomes to the purchases of goods. The reason for this, a factor that has been ignored by practically all economists, was that unit costs of consumer services – such items as rents, the various household utilities, transportation, tuition charges, medical and dental care, interest rates on indebtedness, etc. – had lagged far behind the creases in prices of consumer goods.

In recent years, however, unit costs of services have risen rapidly and still are rising. They now stand about 35 percent higher than 10 years ago, while the cost of consumer goods has risen by only about one third as much.

Services, it appears, are even more inevitable than taxes. There is no escaping them, even during periods of unemployment when income taxes are nil.

This year, services will take a 35 percent bite from disposable income as compared with only 30 percent 10 years ago. The evidence points to an even larger percentage bite in 1958.

Low service costs relative to prices of consumer goods, such as existed during the earlier postwar years may properly be considered as a non-repetitive commodity price stimulus, since low service costs left consumers more money to spend for goods.

Pressure on the world commodity price structure is mounting now that the numerous non-repetitive postwar stimuli to demand and to prices have shot their respective bolts.

Production and the capacity to produce meanwhile have been expanded well beyond the current capacity of the public to purchase and consume. This is world wide, for prices are softening abroad as well as here in response.

The supply-demand mechanics of the situation, once they are understood, clearly point to an extended down pull on prices.

Fresh stimuli to world demand of much greater magnitude than anything now scheduled for the months ahead would be needed to halt the underlying price downtrend, let alone reverse it. —END

Will the Helicopter Be the "Model T" of the Air?

(*Continued from page* 404)

altitude of 7,500 feet. The helicopter reportedly can carry 80 passengers which is about twice the size of the biggest U. S. craft, the Sikorsky S-56 carries. Normal gross weight of the S-56 is 28,500 pounds. According to sources who have seen pictures of this large Russian helicopter, four blades are clearly visible and part of what may be a fifth is visible above the pylon behind the engine intakes. The S-56 has five blades. U. S. helicopter engineers who saw this photograph did not dispute the Russian load figures, for which new records have been claimed.

From these foreign developments it is apparent that the helicopter's versatility gives it universal appeal, both as a military vehicle and as a potential civilian "work-horse." —END

The Bounty of the Sea

(*Continued from page* 393)

United States last year could have been produced at an energy cost equivalent to about 2 billion tons of coal, or more than the total contemporary energy consumption in this country.

As yet, the production of fresh water from sea water on an economic basis is not feasible. The average cost of water used for irrigation is now about one cent per 1000 gallons. The cost of industrial water averages about 5 cents per 1000 gallons. Potable water in the cities is processed at roughly the same cost. At the same time, the lowest cost estimate for obtaining fresh water from the sea is about 50 cents per 1000 gallons. This is still a far cry from the expense of alternative sources. But the shortage of water promises to become so acute here and abroad that consumers have indicated that they would be willing to pay more. The U. S. Office of Saline Water estimates that farmers will pay as much as 13 cents per 1000 gallons of water and cities no more than 35 cents. Some farmers and municipalities are already paying these prices while some industries are reported willing to go as high as $2 per 1000 gallons.

Our present technology does not yet permit production costs lower than 50 cents per 1000 gallons. One of the most promising of the new processes is based on the technique used in extracting vitamins from fish oil. It was developed by Dr. Kenneth C. D. Hickman and is currently being utilized by the Badger Manufacturing Co. of Cambridge, Mass. Officials of the firm claim that a full-scale plant might produce fresh water for no more than 50 cents per 1000 gallons. This cost is comparable to the operating charges of the large-scale plant designed by Ionics Inc. and built by the Bahrain Petroleum Co. Ltd. in the Persian Gulf. Two other plants in the area—one in Aruba and one in Kuwait—yield fresh water at a cost of $2 per 1000 gallons. While this may seem fantastically high to us, the very existence of these desalting units suggests that in some arid areas the large-scale conversion of salt water is already a practical necessity.

In the not-too-distant future the extraction of fresh water from the ocean may well become a commonplace in the United States as well. Already some of our Government officials are talking of the day when a giant network of water pipelines will criss-cross the country. Moreover, as the world becomes more heavily populated and the necessity for irrigation increases, as industries mushroom everywhere, water will become increasingly more scarce. Sea water will then become a major fresh water source, especially if sea water treatment units are combined with chemical plants for the production of salt, magnesium, chlorine, soda, fluorine, iodine, hydrogen and the host of items that the sea will yield to man. Then, indeed will the deserts flower and nations flourish. END

What Needs To Be Done To Prevent A Deepening Recession

(*Continued from page* 395)

In the 1953-54 recession, the Fed, true to form, eased credit. As a matter of fact it eased up so much that it overdid the job. Federal Reserve Board Chairman Martin has publicly admitted that by easing up on credit too much in 1954 the authorities set the stage for the inflationary spurt in 1956 and 1957.

At latest count there were some 2½ million unemployed in this country (3.7% of the civilian labor force). That small a percentage, by any practical definition, amounts to full employment. Yet the Federal Reserve has already dropped the discount rate to 3% from 3½%. Of course, it could be argued that the Fed was acting in anticipation of still higher unemployment. But forecasts of the prospective jobless total place it no higher than four million by next February. J. L. Robertson, a member of the Federal Reserve Board of Governors, admitted on November 25—10 days after the discount rate reduction: "We must avoid pursuing restrictive policies to the point where they bring about a general recession—recent discount rate actions indicate quite clearly the unlikelihood of that happening."

Mr. A. D. H. Kaplan, of the Brookings Institute, not long ago aptly summed up the situation: "The record suggests that we have found a type of solution to cyclical unemployment: one that keeps employment high by letting the dollar do the suffering."

Fiscal Policy

From all this it is plain that wage inflation needs the proper climate in which to flourish. In this respect monetary policy should not be singled out for all the blame. As a matter of fact the effectiveness of efforts to contain inflationary pressures by the monetary authorities in the past has often been diluted by the actions of fiscal authorities.

Wage inflation thrives in times of super-boom. Unrestrained Government spending, when the economy is already straining at the limits to meet the demands on it, can only put more pressure on prices and build a bubble on top of the boom. Moreover, maintainence of high tax rates cuts down on people's ability to save and discourages incentives to work and

produce. Federal spending and tax policies thus are an active force in inflation.

The impetus to inflation from bigger and bigger budgets certainly will not slacken next year. The $70 billion "hope" for the fiscal 1959 budget to be presented to Congress in January has been blasted by the Sputniks. Missile programs will mean sharply increased outlays for defense – at least $2 billion more than this fiscal year. The President has called for a close look at nondefense spending to offset, at least in part, the higher outlays for U. S. Sputniks and ICBMs.

The $28 billion nondefense budget—up 24% since 1955—offers plenty of room for cuts—if the cutters are really determined. Soil Bank outlays, for instance, will come to some $750 million this fiscal year. The program has been a complete failure; despite paying all that money to farmers to leave land idle, crop production will equal previous records this year. The $5 billion veterans' budget offers another area for cuts; there is no sense for instance, in giving healthy veterans pensions. The famous "pork barrel" offers all kinds of opportunities for savings—given the inclination by Congress. Foreign aid, with all its waste, is yet another area.

President Eisenhower, in one of his recent "chin-up" speeches, was not reassuring when he stated that "the U. S. will not sacrifice security to worship a balanced budget." Certainly no one wants to sacrifice security. But if defense requires more spending, then nondefense outlays must be cut back. It's a cinch we can't do everything at once. A sound dollar and a stable economy are the base on which our whole defense effort must rest.

The President has, in the past, asked business and labor to exercise "statesmanship" in their price and wage decisions. Requests for restraint in the private sector should be matched by similar restraints in the financial sector.

If inflation continues to erode the value of the dollar, there is a real chance that, at some point, the people will get fed up and Congress will just have to do something about providing the kind of labor law that will protect both the worker and our economy. There are already signs that the recent exposure of labor corruption has made the working man restive. It has brought recognition of the truth that in some cases both industry and the working man are under the thumb of racket labor, which by its vast power is now destroying our liberties and the moral fiber of the country.

At this stage in our affairs, with our government under pressure fro mso many sides, continued toleration of the situation can lead to terrible disaster for the United States. Compromise is impossible at this stage of the game—only strong measures will do the trick. END

Newcomers to the New York Stock Exchange

(*Continued from page* 413)

sales, aided in recent years by introduction of new products, although earnings have fluctuated fairly widely reflecting variations in costs. After adjustment for the 2-for-1 stock split-up of May 1, 1956 and stock dividends declared since, earnings for the year 1956 showed a large gain to $3.61 per share, from $1.80 for the year previous. This gain was due mainly to increased sales of Salk vaccine. For the first 9 months of this year, adjusted earnings increased to $3.86 per share, from $2.82 a year ago, due in great part to higher volume in Salk and flu vaccines. Dividend declarations this year include four quarterly dividends of 25 cents each and two extra dividends of 10 cents each, as well as a 10% stock dividend payable December 30th. The stock was listed on the N. Y. Stock Exchange on August 19, 1957.

Consolidated Electrodynamics Corporation (formerly Consolidated Engineering) is engaged in the manufacture of instruments for measurement, analysis and process control, mainly of a complicated nature. The company also has a prominent position in high vacuum technology and manufactures related equipment. Both direct and indirect Government work represent about 25% of total volume. The recording instruments division produces transducers, amplifiers, vibration meters, recording oscillographs, spectrometers and other products, as well as a system of continuous plant analysis and control (licensed from Phillips Petroleum). The Rochester division (acquired from Eastman Kodak in 1952) produces a complete line of equipment used in high-vacuum technology. Such equipment has a variety of uses, including evacuating television, radio and radar tubes; metallurgy; and in atomic accelerators. In the past decade, both sales and earnings have shown substantial growth. For the year 1956, earnings increased to $1.35 per share, from 85 cents for the year previous. However, despite higher sales, earnings for the first 9 months of this year declined to 55 cents per share, from 91 cents a year ago. The annual dividend rate is 40 cents per share. The 10 cent extra dividend paid last December was not declared again recently. The stock was listed on the N. Y. Stock Exchange on May 1, 1957.

Delta Air Lines, Incorp. is one of the larger domestic airlines, operating a system connecting Chicago, Detroit and New York with cities in the southeast and south, including Miami, Atlanta, New Orleans, Dallas, Ft. Worth and Houston. The company also operates international routes to Cuba, Jamaica, Haiti, Dominican Republic, Puerto Rico and Venezuela. Late in 1955, the company was authorized to extend its service beyond Atlanta to New York-Newark via Charlotte, Washington, Baltimore and Philadelphia. The company operates under a subsidy-free mail rate. While it has a record of marked growth in revenues, earnings have failed to show growth in recent years, due mainly to rising costs and a relatively fixed rate structure. These factors have adversely affected the airlines in general. For the fiscal year ended June 30, 1957, earnings declined to $2.34 per share, from $4.70 a year previous. The latest earnings, for the 3 months ended September 30, declined further to 32 cents per share, from 43 cents a year ago. Recently, the CAB refused to reconsider the 6% emergency fare increase requested by the airlines and is currently continuing its lengthy study of the rate structure in the industry. The annual dividend rate is $1.20 per share. The stock was listed on the N. Y. Stock Exchange on April 17, 1957. END

For Profit and Income

(*Continued from page* 415)

but it has made by far the most significant competitive progress in recent years under aggressive new management. Last year earnings were pared to $1.50 a share, from 1955's $1.60, principally by a cool summer and a costly strike. Previously they had risen for five consecutive years. They probably will be close to $1.75 a share, a new peak, for 1957. The company's labor situation has been stabilized under a three-year wage contract. Expansion of facilities and marketing outlets make a substantial further 1958 gain highly probable—given about normal weather next summer. Reinstituted at 35 cents in 1952 after a two-year lapse, dividends have since risen for five consecutive years, having recently been boosted from $1 to $1.20. The stock is around 20, down from 1956 high of 26¼, yielding 6%. At this level, the risk appears below average the longer-range potentials above average.

Box Score

The November "box score" on dividends, while not too bad, was the least cheerful in several years. Dividends were omitted or reduced by 32 companies, against 21 a year ago. There were increases in 72 instances, against 120 in November, 1956. The number of extras voted was down from 383 a year earlier to 310.

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As I See It!

(*Continued from page* 383)

and rank-and-file labor people who see themselves caught in a vise between mounting consumer prices and the related loss of full employment.

Since then, Mr. Reuther has spoken out definitely for higher wages. However, much may happen between now and June, when Mr. Reuther sits down with the automobile companies, that may cause him to modify his stand.

Since a number of labor organizations were quick to extend the hand of cooperation to Mr. Gray, including the Associated General Contractors of America, whose president, John D. Marshall, said "The Association will study carefully, with a view toward possible cooperation, any concrete move for a sound policy in meeting problems faced by the construction industry and the national economy."

President George S. Goodyear, of the National Association of Home Builders, spoke in light vein, making clear for the first time that there is a conflict of opinion regarding wages—prices—inflation—and the responsibility of labor to the community.

It is clear that labor is divided on the issues of the wage program and corruption, two key elements that go to the heart of the labor movement. That is undoubtedly why the consolidation between the AFL-CIO is collapsing.

As we look to the year ahead, and the predicted rise in unemployment, we believe that conditions themselves will bring about the cure. Unless it does there is every likelihood of revolt among the card-carrying workmen, who have long been growing restive under gangsterism and the feeling of helplessness at being exploited by the tyrannical labor barons. END

Realistic Investment Approach to 1958

(*Continued from page* 386)

on the order of 14% to 24% by Norwich Pharmacal, Pfizer and American Home Products.

Assuming that another phase of decline after the turn of the year tests or violates the industrial list's October low, we would expect it to be more selective than was the July-October decline and to be paced in large measure by heavy-industry stocks. After the market makes a lasting bottom and starts upward, there is bound to be quite a "New Deal" in selective cross-currents, much of it along lines not yet in the making and not foreseeable until our studies turn up new clues.

The Business News

For us and for informed investors, there can be no surprise in the fact that the week-to-week business news increasingly confirms what we have known for some time: namely, the fact that the economy is in a cycle of recession. The weekly reports from the steel industry show further curtailment of operations; there are cutbacks in automobile output (mainly by Ford and Chrysler); the world copper price is at a four-year low; unemployment, although far from serious, is at the highest level in some years; manufacturers' new orders and sales continue to drop, and backlogs of unfilled orders continue to run off at a brisk pace. The index of industrial activity is bound to fall at least moderately further at least over the medium term, with considerable impact on industrial and rail earnings.

The consensus seems to be that we will have only a mild recession, as in 1948-1949 or 1953-1954, that it will flatten out around mid-1958 and we will be "on our way up" again in fairly short order thereafter. Of course this is guesswork to a large extent and could be wishful thinking. At this stage, and until some definite evidence begins to point to completion of the adjustment, we propose to wait and see.

Meanwhile, assuming a mild recession, our opinion is that the industrial stock average at the present level does not allow enough for it; and it is open to question that it was fully discounted at the average's October low. For perspective on stock valuation, yield on representative industrials exceeded bond yield by about 116% at the low point of the market's 1946-1947 decline, by 143% at termination of the 1948-1949 decline, and by 103% at the 1953 market low. At present, the spread in favor of stocks is about 18%. Of course, there was wide undervaluation at the lows cited but the current spread remains nearer over-valuation than normal valuation.

Industrial stock yield is around 4.5%, a considerable change from 3.7% at last July's top; but it was 5.3% at the market's 1947 low, 7.2% at its 1949 low and 6.3% at the 1953 market low. Surely a 5% basis is readily possible and might be exceeded. We tentatively allow for 400 or less for the Dow industrial average, against about 440 now and roughly 420 at the October low. A conservative investment policy remains in order in all respects, including sizable reserves in cash or equivalent for later buying opportunities. — Monday, December 16.

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